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2017 DOCUMENT BRIEFING BOOK

TABLE OF CONTENTS

LOCK-UP INFORMATION

Schedule
Policy Teams Contact Information
Macdonald Block Floor Plan

COMMUNICATIONS PRODUCTS AND TOP MEDIA Q&As

Communications Material
Top Media Questions & Answers

TECHNICAL Q&As

CHAPTER I: RESTORING BALANCE – ONTARIO'S ECONOMIC AND FISCAL STRENGTH

Infrastructure Plan	1
---------------------------	---

CHAPTER II: HELPING YOU AND YOUR FAMILY

New Natural Gas Grant Program	3
Child Care	4
Community Hubs	5
Housing Affordability	6
Consumer Protection: Strengthening Financial Services and Pension Regulation	9
Strengthening Consumer and Investor Protection	16
Expanding the Framework for Defined Contribution Pension Plans	19
Helping Seniors	21
Helping with Everyday Costs	23
Helping Parents	24
Supporting Seniors Health	27

CHAPTER III: CREATING OPPORTUNITIES AND SECURITY

Chapter III: Income Security and Pension Policy Division	31
Financial Literacy for Newcomers	31
Pooled Registered Pension Plans	31
Superintendent Powers	33
Target Benefit Pension Plans	35
Variable Benefits	38
Reviewing the Solvency Funding Framework	40
Missing Beneficiaries	43

Investing in People Today	47
Investing in Jobs for Today and Tomorrow.....	47

CHAPTER IV: PUBLIC SERVICES YOU CAN COUNT ON

Section A – Strengthening Health Care

Health	52
Alcohol Policy Branch.....	53
Summary of New Investments.....	54
Increasing Access	56
Expanding Access to Home and Community Care.....	58
Faster Access to Mental Health and Addiction Services	59
Enhancing the Patient Experience.....	60
Protecting Health Care for Tomorrow	62

CHAPTER IV: PUBLIC SERVICES YOU CAN COUNT ON

Section B - Investing in Education

64

Section C – Building Transit and Transportation

Moving Ontario Forward with the Trillium Trust	65
--	----

Section D: Building the Inclusive Communities and Improving the Justice System

Income Security Review	74
Social and Justice.....	76

CHAPTER V: WORKING WITH PARTNERS

Introduction: Continued Collaboration with Our Partners.....	77
Achieving Federal-Provincial Fiscal Sustainability in the Federation	79
Federal-Provincial Collaboration: Effective, Efficient and Equitable	
Intergovernmental Relations in Canada	81
Working in Partnership with Municipalities	83
Partnering with First Nations on Tobacco.....	85

CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

Section A: Transforming Government for Sustainability and Fairness

Evidence-Based Decision-Making	88
Transformation and Efficiency Initiatives	90
Details of Ontario's Finances.....	102

Section B: Details of Ontario's Finances and Economic Outlook

Chapter VI: Responsible Fiscal Management Section B – Details of	
OPS Employee and Pensioner Benefits Expense	107
Interim Fiscal Outlook.....	109
Medium-Term Fiscal Outlook	109
Gaming Policy Branch	114
Alcohol Policy Branch.....	115

Section C: Strengthening Ontario's Property Tax and Assessment System

Reducing Ontario's Electricity Sector Stranded Debt	128
General Ontario Financing Authority	129

CHAPTER VII: A FAIR AND SUSTAINABLE TAX SYSTEM

Strengthening the Governance of the Municipal Property Assessment Corporation	136
Tobacco.....	139
Strengthening Ontario's Property Tax and Assessment System	141
Facilitating Restructuring of USSC	142
Alcohol Policy Branch.....	146
Taxation, Other Measures	147
Section: Other Legislative Initiatives.....	149
Section A: Taxation, Other Measures.....	149
Other Legislative Initiatives.....	151

BRIEFING NOTES

CHAPTER I: RESTORING BALANCE – ONTARIO'S ECONOMIC AND FISCAL STRENGTH

Ontario Economic Performance and Outlook	1
Maintaining Tax Competitiveness.....	5
Infrastructure Investments	9

CHAPTER II: HELPING YOU AND YOUR FAMILY

Fair Hydro Plan and Electricity Price Mitigation	1
Global Adjustment	13
Regulated Price Plan (RPP)	17
Industrial Conservation Initiative.....	22
Development Charge Rebate	24
Vacant Homes Property Tax	26
Property Taxation of Vacant Land	28
Financial Services Regulatory Authority of Ontario	30
Regulation of Financial Planning	32
Regulation of Syndicated Mortgages in Ontario	34
Improving Auto Insurance.....	36
Fair Housing Plan – MOF Initiatives	39
Establishment of Ontario Seniors Public Transit Tax Credit	45
Ontario's Housing Market	46
Investing in People's Education and Skills	51

Infrastructure Investments	See Chapter I
----------------------------------	---------------

CHAPTER III: CREATING OPPORTUNITIES AND SECURITY

Empowering Newcomers' Financial Literacy	1
Investing in Jobs for Today and Tomorrow.....	3
Greenhouse Gas Reduction Account	13
Green Investment Fund.....	15
2017 Budget Talks.....	17
Expanding the Framework for Defined Contribution Pension Plans	19
Target Benefit Multi-Employer Pension Plans	21
Variable Benefits	23
Reviewing the Solvency Funding Framework.....	25
Missing Beneficiary.....	28
Industrial Conservation Initiative.....	See Chapter II
Investing in People's Education and Skills	See Chapter II

CHAPTER IV: PUBLIC SERVICES YOU CAN COUNT ON

Section A: Strengthening Health Care

Infrastructure Investments	See Chapter I
2017 Budget Talks.....	See Chapter III

Section B: Investing in Education

Infrastructure Investments	See Chapter I
2017 Budget Talks.....	See Chapter III

Section C: Building Transit and Transportation

Trillium Trust Update	1
Hydro One / Hydro One Brampton	5
Real Estate Update	10
Infrastructure Investments	See Chapter I

Section D: Building the Inclusive Communities and Improving the Justice System

Social Assistance Changes	1
Basic Income Pilot.....	5
Infrastructure Investments	See Chapter I

CHAPTER V: WORKING WITH OUR PARTNERS

What is the Province Doing to Help Municipalities	1
Support to Toronto.....	6
Partnerships with First Nations.....	7
Working with Our Partners	9
Infrastructure Investments	See Chapter I

CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

Section A: Transforming Government for Sustainability and Fairness

Addressing Unregulated Tobacco	1
--------------------------------------	---

Section B: Details of Ontario's Finances and Economic Outlook

Ontario Revenue Performance and Outlook.....	1
Fiscal Impact of the Electricity Sector.....	8
Ontario's Fiscal Outlook	12
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	20
Healthcare of Ontario Pension Plan (HOOPP)	22
OPS Employee and Pensioner Benefits	25
Teachers' Pension Plan (TPP)	29
Ontario Economic Performance and Outlook	See Chapter I
Infrastructure Investments	See Chapter I

Section C: Strengthening Ontario's Property Tax and Assessment System

Borrowing and Debt Management.....	1
Ontario's Credit Ratings	9
Electricity Sector Unfunded Liability/ Stranded Debt	11
Fiscal Impact of the Electricity Sector.....	See Chapter VI, Section B

CHAPTER VII: A FAIR AND SUSTAINABLE TAX SYSTEM

Supporting Smoke-Free Ontario.....	1
MPAC Governance Changes	4
Railway Rights-of-Way Property Taxation Review	6
Small-Scale Agri-Food Business on Farms	9
Amendments to Section 28 of the Financial Administration Act	11

TECHNICAL QUESTIONS & ANSWERS

Chapter I: Restoring Balance – Ontario’s Economic and Fiscal Strength.....	1
Infrastructure Plan	1
Chapter II: Helping You and Your Family	3
New Natural Gas Grant Program.....	3
Child Care.....	4
Community Hubs	5
Housing Affordability.....	6
Consumer Protection: Strengthening Financial Services and Pension Regulation	9
Strengthening Consumer and Investor Protection	16
Expanding the Framework for Defined Contribution Pension Plans	19
Helping Seniors	21
Helping with Everyday Costs	23
Helping Parents	24
Supporting Seniors Health.....	27
Chapter III: Income Security and Pension Policy Division	31
Financial Literacy for Newcomers.....	31
Pooled Registered Pension Plans	31
Superintendent Powers	33
Target Benefit Pension Plans	35
Variable Benefits.....	38
Reviewing the Solvency Funding Framework.....	40
Missing Beneficiaries	43
Investing in People Today	47
Investing in Jobs for Today and Tomorrow.....	47
Chapter IV: Public Services You Can Count On Section A – Strengthening Health Care	52
Health	52
Alcohol Policy Branch	53
Summary of New Investments	54
Increasing Access.....	56
Expanding Access to Home and Community Care	58
Faster Access to Mental Health and Addiction Services.....	59

Enhancing the Patient Experience	60
Protecting Health Care for Tomorrow	62
Chapter IV: Public Services You Can Count On Section B – Investing in Education ...	64
Chapter IV: Public Services You Can Count On Section C - Building Transit and Transportation	65
Moving Ontario Forward with the Trillium Trust	65
Chapter IV: Public Services You Can Count On Section D - Building Inclusive Communities and Improving the Justice System.....	74
Income Security Review	74
Social and Justice.....	76
Chapter V: Working with partners	77
Introduction: Continued Collaboration with Our Partners.....	77
Achieving Federal-Provincial Fiscal Sustainability in the Federation	79
Federal-Provincial Collaboration: Effective, Efficient and Equitable Intergovernmental Relations in Canada	81
Working in Partnership with Municipalities.....	83
Partnering with First Nations on Tobacco	85
Chapter VI: Responsible Fiscal Management Section A – Transforming Government for Sustainability and Fairness	88
Evidence-Based Decision-Making	88
Transformation and Efficiency Initiatives	90
Details of Ontario's Finances.....	102
Chapter VI: Responsible Fiscal Management Section B – Details of Ontario's Finances and Economic Outlook	107
OPS Employee and Pensioner Benefits Expense	107
Interim Fiscal Outlook.....	109
Medium-Term Fiscal Outlook.....	109
Gaming Policy Branch	114
Alcohol Policy Branch.....	115
Chapter VI: Responsible Fiscal Management Section C - Borrowing and Debt Management	128
Reducing Ontario's Electricity Sector Stranded Debt.....	128
General Ontario Financing Authority.....	129
Chapter VII: A Fair and Sustainable Tax System Section C - Strengthening Ontario's Property Tax and Assessment System	136
Strengthening the Governance of the Municipal Property Assessment Corporation	136

Tobacco.....	139
Strengthening Ontario's Property Tax and Assessment System	141
Facilitating Restructuring of USSC	142
Alcohol Policy Branch	146
Taxation, Other Measures	147
Section: Other Legislative Initiatives	149
Section A: Taxation, Other Measures	149
Other Legislative Initiatives	151

CHAPTER I: RESTORING BALANCE – ONTARIO'S ECONOMIC AND FISCAL STRENGTH

Infrastructure Plan

Q: Last year you said that the government was investing more than \$135 billion in infrastructure over 10 years and more than \$160 billion over 12 years. Now you're saying you're investing more than \$190 billion over 13 years.

- What's the new 10-year total?
- Why do you keep adding a year? Why not just stick with a 10-year total?

A: The new 10-year total is about \$156 billion, beginning in 2017-18, and is reflected in Chart 3.3 in Chapter 3 of the Document.

The Document identifies both 10 and 13-year infrastructure investment totals, as reflected in the Chart 3.3 in Chapter 3 of the Document.

The government made its first 10-year infrastructure investment commitment in the 2014 Budget. Consistent with the approach taken in the 2016 Budget, where the government announced a 12-year infrastructure investment plan beginning in 2014-15, the 2017 Document builds on the commitments to date, and provides a 13-year total of about \$190 billion for infrastructure investments since 2014-15.

Q: You say you're investing \$190 billion over 13 years, but all the sector-specific references are over 10-years. Why the difference? What are the 13-year totals by sector?

A: The government made its first 10-year infrastructure investment commitment in the 2014 Budget. Consistent with the approach taken in the 2016 Budget, where the government announced a 12-year infrastructure investment plan beginning in 2014-15, the 2017 Document builds on the commitments to date, and provides a 13-year total of about \$190 billion for infrastructure investments since 2014-15.

As referenced Chapter 3 (Chart 3.2 – Significant Infrastructure Investments), the 13-year total includes the forward-looking 10-year plan that aligns with sector-specific references, plus the interim forecast update and actual investments made in 2014-15 and 2015-16.

Prior years' actual infrastructure investments by sector are published annually in Public Accounts annual report.

Q: How do we know that the \$190 billion will be spent in the right places going forward?

A: The government made its first 10-year infrastructure investment commitment in the 2014 Budget. Consistent with the approach taken in the 2016 Budget, where the government announced a 12-year infrastructure investment plan beginning in 2014-15, the 2017 Document builds on the commitments to date, and provides a 13-year total of about \$190 billion for infrastructure investments since 2014-15.

As referenced Chapter 3 (Chart 3.2 – Significant Infrastructure Investments), the 13-year total includes the forward-looking 10-year plan that aligns with sector-specific references, plus the interim forecast update and actual investments made in 2014-15 and 2015-16.

Prior years' actual infrastructure investments by sector are published annually in Public Accounts annual report.

Q: How do we know that the \$190 billion will be spent in the right places going forward?

A: The Infrastructure for Jobs and Prosperity Act will ensure that current and future governments have a long-term infrastructure plan in place and that plans are updated at least every five years.

The legislation ensures we will continue to improve how we are prioritizing and addressing infrastructure needs. In addition, it will promote high quality infrastructure design and support job creation, training opportunities, and economic growth.

In addition, to help ensure that public infrastructure is aligned with the needs of Ontarians, the government is continuing with its Long-Term Infrastructure Plan that describes the Province's existing infrastructure portfolio, outlines anticipated needs of the portfolio and proposes strategies to meet these needs. The Province plans to release the Long-Term Infrastructure Plan by the end of 2017.

CHAPTER II: HELPING YOU AND YOUR FAMILY

New Natural Gas Grant Program

Q: Who is eligible for the program?

A: Municipalities, First Nations or local services boards partnering with Natural Gas, Liquefied Natural Gas and Compressed Natural Gas Distributors or Suppliers are eligible to apply to the program jointly.

Contributions from local governments for projects are mandatory or applicants must provide evidence of why it is not feasible to include them in projects.

More than one application per project can be submitted if multiple utilities are interested in servicing a community.

Q: What kinds of projects are eligible? How many projects are you funding? (i.e., who gets what)?

A: There are two separate project streams:

- The \$70 million Expansion Projects Stream supports projects that are primarily about converting residential customers to natural gas. Only projects that service unserved communities are eligible.
- The \$30 million Economic Development Projects Stream supports projects that are primarily about converting businesses (e.g., farms, manufacturing facilities, mining operations, forestry operations, etc.) to natural gas or expanding service to businesses. Projects can be for unserved and underserved communities under this stream.

The initial allocation for each stream may be changed based on actual program demand.

Under both streams, grant funding may be used towards:

- Capital projects to build new natural gas pipelines or compressors and other related capital works.
- Capital projects to build liquefied or compressed natural gas infrastructure, including pipelines, compressors, liquefaction facilities, regasification facilities, storage facilities and other related capital works.

Operational and maintenance costs and the cost of purchasing gas are not eligible under the Grant Program.

There will be one intake held to allocate the \$100 million in grants. Grant funding will only be provided for the one project that is approved for each service area.

The number of projects could vary based on the results of the competitive application process.

Q: When will the \$100 million flow to grant recipients?

A: The competitive intake process for the program launched on April 21, 2017.

Once the project has received approval from the Ontario Energy Board, the grant agreement has been fully executed, and all conditions satisfied, grant payments will be advanced to successful distributors/suppliers.

Q: What criteria will be used to evaluate applications?

A: The primary selection criteria for the Expansion Projects Stream will be the number of new connections that are made possible relative to the amount of grant funding requested.

Other criteria include how rate-based contributions can be optimized, ability to leverage other partnerships, level of greenhouse gas emissions reduced as well as Northern/First Nation considerations.

The primary selection criteria for the Economic Development Projects Stream will be focusing on Economic Development and cost savings for rural businesses. Projects applied under this stream will be assessed based on the expected economic benefit resulting from business connections, including farms, of converting to natural gas.

Child Care

Q: When will the subsidy be available?

A: Subsidies will become available beginning in 2017-18. The government will be providing a subsidy to approximately 60 per cent of new spaces in order to address affordability and reduce fee subsidy waitlists.

Additional specifics regarding implementation timelines will be provided at a later date.

Q: Are the 24,000 children benefiting from this investment in addition to the 100,000 previously announced?

A: The government's investments in child care will support access to licensed child care for 24,000 more children up to four years old by the end of 2017-18. This will contribute to the government's commitment to help 100,000 more children access affordable, quality licensed child care.

Q: How much funding will be available and when will it be rolled out?

To develop its child care framework, the Ministry of Education engaged in extensive stakeholder consultations over the last few months in cities and towns across Ontario. The Ministry worked alongside parents and families, Indigenous communities, Francophone communities, child care providers and early years staff, school boards and educators, local governments, and employers.

Additional specifics regarding allocations and implementation timelines will be provided at a later date.

Community Hubs

Q: What are you doing to support community hubs?

A: In line with the recommendations in *Community Hubs in Ontario: A Strategic Framework & Action Plan*, the province will:

- Expand capital funding for Ontario Early Years Child and Family Centres.
- Renovate surplus school space to better meet the needs of community partners -- including enhanced accessibility; and
- Build replacement space for community groups currently operating in schools that are scheduled for closing.

The Province is also committed to making it easier to create community hubs by considering broader economic and community benefits when making decisions on the disposition of surplus provincial properties.

The Province is also hosting the Community Hubs Summit in Toronto on May 1 to 3, 2017 to launch the Resource Network, and provide training and skills development for those who are working in or planning for a community hub in Ontario. The summit will encourage knowledge sharing and provide an engagement opportunity for the ongoing implementation of the community hub recommendations.

Q. Is any new funding available to support community hubs?

- A. The Province is committed to the development of more community hubs, and continues to implement recommendations and actions as outlined in the Community Hubs in Ontario: A Strategic Framework and Action Plan to encourage the development of community hubs.

The Province is working to develop capacity and facilitate the development of community hubs. Many of the services provided by community hubs will continue to be supported by various ministries in order to ensure the growth of strong communities.

Housing Affordability

Actions to Increase Rental Housing Supply

Q: What is the government doing to support the development of new purpose-built rental housing?

- A: Ontario is committed to addressing low vacancy rates by increasing the purpose-built rental housing supply, while improving fairness in the property taxation of all forms of housing.

The government is proposing a new targeted, \$125 million, five-year program to rebate a portion of development charges for new multi-residential rental apartment buildings. This proposed new program is intended to encourage the development of new purpose-built rental apartment buildings. The program would be scoped to target projects in those communities that are most in need of new purpose-built rental housing and that would not have proceeded in the absence of this incentive.

In addition, the government will also ensure that municipalities tax new multi-residential apartments at a rate similar to other residential properties. This will further support and encourage the development of new multi-residential housing, as lower municipal taxes on multi-residential apartment buildings would create an incentive for the development of new, purpose-built rental housing.

Taken together, these changes will help encourage the development of new purpose-built rental housing, improving affordability in the rental market.

Development Charge Rebate Program

Q: What change is the Province making regarding development charges?

A: The government is proposing a new targeted, \$125 million, five-year program to rebate a portion of development charges for new multi-residential rental apartment buildings.

This proposed new program is intended to encourage the development of new purpose-built rental apartment buildings. The rebate program would be scoped to target projects that would not have proceeded in the absence of this incentive.

In the 2016 Economic Outlook and Fiscal Review, the Province announced a review of the property taxation of multi-residential apartment buildings to improve housing affordability in the rental market. The proposed development charge rebate program is an early outcome from that review.

Vacant Homes Property Tax

Q: Why are you introducing a vacant homes tax?

A: The government understands the concerns that have been raised about residential units potentially being left vacant by speculators, while many people are looking for housing they can afford. The City of Toronto has identified a tax on vacant homes as a tool that should be considered. A vacant homes tax could help encourage property owners to sell unoccupied units or make them available to be rented. This could, in turn, increase housing supply and help promote affordability.

For this reason, the government is proposing amendments to legislation that would grant Toronto broad authority to levy an additional property tax on vacant homes. If the City decides to proceed with this tax, it would be responsible for its detailed design, implementation, and administration.

The government will work with other interested municipalities that are experiencing issues with homes being left vacant as a result of speculation.

Vacant Land Taxation

Q: What is the government doing in response to concerns that developers are holding undeveloped land that has been approved for housing for speculative purposes?

A: The government will work with municipalities to ensure they have the tools they need to help encourage the supply of new housing.

This could include providing municipalities with the flexibility to use property tax tools to assist with unlocking development opportunities. Currently, vacant land that is zoned for residential development is taxed at the same municipal and education tax rates as land that is developed with a residential dwelling.

Municipalities could be permitted to impose a higher tax rate on vacant land that has been approved and serviced for new housing.

The government is proposing a legislative framework to support this work.

Consumer Protection: Strengthening Financial Services and Pension Regulation

Broad Policy Implications

Q: Why does Ontario need a new regulator?

A: The financial services sector is a significant part of the economy and touches the everyday lives of Ontarians. We are committed to modernizing and strengthening the regulation for financial services and pensions, and to ensuring Ontarians are adequately protected.

Independent experts have identified critical limitations in Ontario's current framework for financial services regulation, and last year, the government received recommendations from an Expert Advisory Panel for significant reforms to the regulatory landscape, including the establishment of a new, independent and flexible regulator that would replace the Financial Services Commission of Ontario (FSCO).

The *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act), which establishes the initial parameters of the new regulator, was passed in December 2016 and will come into force upon proclamation by the Lieutenant Governor.

This represents an important first step towards the Panel's vision for modernizing and strengthening the regulation for financial services and pensions in Ontario and improving consumer, investor and pension plan beneficiary protection.

Q: How is the government strengthening consumer and pension plan beneficiary protection?

A: An environment in which Ontarians can confidently and efficiently manage their money offers a host of benefits. Ontario's financial services sector, including consumers and pension plan beneficiaries, will benefit from a new, flexible and innovative financial services and pension regulator.

We agree with the Panel's vision for a new regulator with a modernized governance and accountability framework and with a mechanism to ensure individuals' perspectives are considered, for example, through the establishment of an Office of the Consumer.

Establishing the initial parameters of the Financial Services Regulatory Authority of Ontario, or FSRA, through the passage of the *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act) in December 2016 represents an important first step towards that overall vision.

Our next step will be appointing a board of directors to oversee the management of FSRA's affairs as it builds its regulatory capacity. We expect to appoint a board in spring 2017.

We will also continue to consult with stakeholders and review the Expert Advisory Panel's recommendations. This work will inform the development of FSRA's mandate and governance structure, as well as the structure and powers of the Financial Services Tribunal (FST), and legislative amendments regarding these priorities are expected to be introduced by the end of 2017.

Implementation

Q: How long will it take to replace FSCO with the new regulator?

A: We are taking a multi-phased approach to the transition to the Financial Services Regulatory Authority of Ontario, or FSRA, and have begun taking key steps to begin that transition. The *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act), which establishes the initial parameters of the new regulator, was passed in December 2016 and will come into force upon proclamation by the Lieutenant Governor.

As a next step, we expect to appoint a board of directors in spring 2017 to oversee the management of FSRA's affairs as it builds its regulatory capacity.

We will also continue to consult with stakeholders and review the Expert Advisory Panel's recommendations. This work will inform the development of FSRA's mandate and governance structure, as well as the structure and powers of the Financial Services Tribunal, and we expect to introduce legislative amendments regarding these priorities by the end of 2017.

Q: Are you adopting all of the Panel's recommendations?

A: We agree with the Panel's overall vision for a new regulator and are taking key steps to begin the transition to a new regulatory authority.

The *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act), which establishes the initial parameters of the new regulator, was passed in December 2016 and will come into force upon proclamation by the Lieutenant Governor.

Some of the Panel's 44 recommendations warrant further review. We will continue to consult with stakeholders and review the recommendations. This work will inform the development of the Financial Services Regulatory Authority of Ontario's, or FSRA's, mandate and governance structure, as well as the structure and powers of the Financial Services Tribunal (FST), and legislative amendments regarding these priorities are expected to be introduced by the end of 2017.

Labour Relations

Q: What will happen to FSCO and its employees?

A: One of our priorities is to ensure business continuity during the transition. The Financial Services Commission of Ontario (FSCO) will continue to provide regulatory oversight until the Financial Services Regulatory Authority of Ontario (FSRA) becomes fully operational.

As we move forward, we will continue to share information about implementation developments with bargaining agents and FSCO staff, in a manner within keeping of our Collective Agreement obligations.

Impacts to Specific Sectors

Q: How will this affect auto insurance rates?

A: We agree with the Panel's overall vision for a new regulator. The *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act), which establishes the initial parameters of the new regulator, was passed in December 2016 and will come into force upon proclamation by the Lieutenant Governor. As a next step, we expect to appoint a board of directors in spring 2017 to oversee the management of the Financial Services Regulatory Authority of Ontario's, or FSRA's, affairs as it builds its regulatory capacity.

Some of the Panel's 44 recommendations, including how auto insurance rates are regulated, warrant further review. We will continue to consult with stakeholders and review those recommendations.

As part of our ongoing review of the Panel's recommendations, we will also take into consideration the recommendations included in David Marshall's recent report, which reviews the auto insurance system in Ontario. The report, which was posted on April 11, 2017, recommends transformative steps to strengthen consumer protection, improve health outcomes for those injured in collisions and reduce insurance costs.

We will consult on the recommendations and announce details of those consultations in the coming weeks.

Non-Resident Speculation Tax (NRST)

Q: If someone signed an agreement of purchase and sale on April 19, 2017 and is not a Canadian citizen or a permanent resident of Canada, do they have to pay the NRST if the transaction closes after the NRST came into effect?

A: There is no NRST payable if the both the seller and the buyer signed a binding agreement of purchase and sale on or before April 20, 2017.

Q: How will you force payment of the NRST before legislation is enacted?

A: Subject to the approval by the Legislature, the NRST would apply to transactions pursuant to binding agreements of purchase and sale entered into on or after April 21, 2017.

If the Legislature approves the amendments to the *Land Transfer Tax Act*, taxpayers that failed to pay tax in respect of transactions entered into on or after April 21, 2017 would be subject to an assessment of the tax payable plus any corresponding interest and penalties. This would capture any transactions entered into between April 21, 2017 and the date of Royal Assent.

Q: Isn't the introduction of the NRST contrary to the *Taxpayer Protection Act*?

A: The government intends to introduce amendments to the *Taxpayer Protection Act* to permit the implementation of the NRST.

Amendments to the *Land Transfer Tax Act* to implement the NRST would be introduced after the amendments to the *Taxpayer Protection Act* receive Royal Assent (subject to the approval of the Legislature).

Q: Prior to the enactment of the legislation, will I be prevented from registering a conveyance if I do not pay the NRST?

A: No. However, failure to pay the NRST may result in an assessment of NRST, interest and penalties if the legislation is approved by the Legislature.

Q: How will trusts be taxed by the NRST?

A: A trust is not a "person" for the purposes of the *Land Transfer Tax Act*, and is therefore not itself subject to the land transfer tax (LTT). Rather, the trustee or the beneficiaries of the trust will be subject to the LTT.

For the purposes of the NRST, a new term "taxable trustee" will be defined as a trustee that is one of the following:

- A foreign entity holding title in trust for beneficiaries, or

- A Canadian citizen, permanent resident of Canada, or a corporation holding title in trust for foreign entity beneficiaries.

Therefore, the “taxable trustee” will be required to pay the NRST for transfers of applicable residential property in Ontario.

A trustee that acquires land on behalf of a trust which contains at least one beneficiary that is a foreign entity, will be subject to the NRST. The 15% NRST will apply on the entire value of the consideration of the applicable residential property, and will not be prorated to the interest of the foreign entity beneficiary.

Q: What is the interest rate that would be applicable for any NRST paid on a transaction where a rebate is available?

A: Details about interest on rebate will be provided at a later date.

Q: How will real estate lawyers know who is not a Canadian citizen or permanent resident when they buy a property?

A: The purchaser’s lawyer must satisfy their professional obligations in relation to the information provided by clients on the Form (e.g. the Law Society of Upper Canada’s Rules of Professional Conduct).

Q: When will you have the housing data you promised to collect last Fall? Why did it take so long?

A: Information collection began on April 24, 2017. In the coming months the government will closely examine the new data to monitor the state of the housing market and to inform policy development, in addition to using the information to administer and enforce the *Land Transfer Tax Act*.

To begin information collection the Province worked closely with Teranet, the operator of the electronic land registry system. The government is committed to protecting the privacy of personal information it collects. In this case, a new software system had to be developed to ensure the privacy of personal information is maintained, which took some time to develop.

Q: Can Toronto do its own version of the NRST? Do they need the province’s permission?

A: The City of Toronto has broad powers of taxation granted to it by the *City of Toronto Act, 2006*. The City of Toronto does not need the permission of the Province to implement a tax similar to the NRST.

Q: Isn't it easy for people to get around this tax (e.g. by setting up a Canadian corporation, claiming "nil" consideration, etc.)? How will you prevent this?

A: The Non-Resident Speculation Tax would apply to Canadian corporations that are controlled by a foreign national or other foreign corporation. It would also apply where Canadian citizens or permanent residents of Canada, as taxable trustees, hold property in trust for a foreign entity or are trustees where a beneficiary may be a foreign entity.

Anti-avoidance provisions will also be enforced to ensure the NRST is reported and paid as required. This includes preventing the use of multiple conveyances to avoid the NRST.

Failure to pay the NRST as required may result in a penalty, fine and/or imprisonment.

Q: How will you know that someone has worked or studied in Ontario? Is this a big loophole that BC managed to avoid?

A: The Non-Resident Speculation Tax would provide a rebate of taxes for non-Canadian citizens or permanent residents who purchase residential property and have worked or studied in Ontario. The risk of creating loopholes to avoid the tax would be significantly decreased by requiring people to pay the tax up front and by requiring a high level of documentary evidence to qualify for the rebate.

Q: House closings usually have very tight timelines. Is this tax going to delay the process and cause someone to lose out on an offer?

A: Once Teranet's systems have been updated, the NRST will be collected at the same time as the existing land transfer tax through the electronic land registration system.

In the interim, the tax should be pre-paid directly to the Ministry of Finance prior to registration. The MOF anticipates a higher volume of pre-payments of tax than what is normally received. To avoid delays, the MOF suggests that the request to pre-pay the NRST and LTT be submitted with all required documentation a minimum of five business days prior to the closing of the deal.

Q: How much tax will someone have to pay?

A: The NRST is payable at a rate of 15% on the value of the consideration for the home. For example, if a foreign entity purchases a \$1 million home in the Greater Golden Horseshoe the tax payable would be \$150,000.

Paper Flipping

Q: What is “paper flipping” and why is the Province concerned about it?

A: “Paper flipping” refers to the practice of entering into a contractual agreement to buy a home and assigning the agreement to another person in exchange for compensation prior to closing. It can also refer to arrangements in which one party substitutes another person in a contract to buy a home in exchange for compensation. This practice may be contributing to escalating house prices if speculators are crowding out people who wish to purchase homes for their own use.

In addition, the government is concerned about tax avoidance, because people may not be paying the proper amount of tax on paper flips, including income tax, HST and Land Transfer Tax.

Q: How are you looking into the practice of “paper flipping”? What does that entail?

A: To better understand and track paper flipping activities, the government will require information about assignments and similar arrangements through the LTT system.

At the time a property transfer is registered and LTT is payable, purchasers will be required to declare whether they entered the agreement by way of assignment or another similar arrangement. Information gathered through this declaration will assist the Ministry of Finance in ensuring that the correct amount of tax is paid. The government is concerned about all types of paper flipping. To better understand the extent of the problem, the government will require information about assignments and similar arrangements through the LTT system.

Q: Are you banning paper flipping?

A: The government is concerned about all types of paper flipping, including assignments of agreements of purchase and sale. That is why we are taking steps to better understand the extent of the problem.

The government will require information about assignments and similar arrangements through the LTT system. At the time the transfer is registered and LTT is payable, purchasers would be required to declare whether they entered the agreement by way of assignment or another similar arrangement.

Strengthening Consumer and Investor Protection

Regulation of Financial Planning

Q: What is the government's response to the Expert Committee recommendations related to financial planning and financial advice?

A: The Expert Committee was mandated to provide advice and recommendations to the Ontario government regarding whether and to what extent financial planning and the giving of financial advice should be regulated in Ontario and the appropriate scope of such regulation.

The government welcomes the Expert Committee's recommendations and will use them to take actions that protect consumers and help everyone build their prosperity.

The government wants to ensure that we get this right for consumers, so we will work closely with financial services regulators to determine how best to move forward with the recommendations

Over the coming year, the government will work with financial services regulators to:

- Close the regulatory gap that currently allows financial planners to perform their work without regulatory oversight or specified proficiency requirements.
- Take steps to curb consumer confusion by restricting the use of titles related to financial planning.
- Respond to the report's recommendation to develop a central registry of persons providing financial planning and advisory services.
- Consider the report's recommendation related to referral arrangements.
- Examine the feasibility of a universal statutory best interest duty in Ontario.

Q: The Expert Committee recommended restricting the titles used in the financial industry. Will you accept this recommendation?

A: The expert committee made several recommendations to improve consumer protection, including that all financial planners in Ontario should be regulated and meet prescribed proficiency requirements.

Over the coming year, we'll work with regulators to make sure all financial planners are regulated and meet proficiency requirements, and to restrict the use of titles related to financial planning.

Restricting the use of titles will make things clearer for consumers.

We want to get this right for consumers and regulated financial services businesses, so we'll work closely with financial services regulators to determine how best to move forward with the recommendations.

Q: Do you accept the recommendation that Ontario should put in place a statutory best interest duty for financial advisors and financial planners?

A: The expert committee made several recommendations to improve consumer protection, including that all financial planners in Ontario should be regulated and meet prescribed proficiency requirements.

Though most planners and advisors are conscientious and treat their customers fairly and honestly, there is no specific law or rule that says they always must put the client's interests ahead of their own.

The Expert Committee identified this as a consumer protection risk, and recommended that all planners and advisors be legally required to act in the best interest of their clients at all times.

The government welcomes the report's support for a statutory best interest duty. Over the coming year, the government will work with financial services regulators to examine the feasibility of a universal statutory best interest duty in Ontario.

Q: Several major banks have recently been accused of putting their interests ahead of their customers' interests through aggressive sales practices. Would the report's recommendations fix these alleged issues?

A: While I can't comment on specific cases, and banking services are federally regulated, the reports are concerning.

Financial planning and advisory services are important in helping people achieve their financial goals.

It's critical that consumers be able to get trustworthy financial planning and advice.

That's why we commissioned this report: to get recommendations on how to regulate financial planning and advisory services in Ontario, and how best to protect consumers.

We welcome the recommendations and we'll use them to take actions that protect consumers of financial services and help people build their prosperity.

Investing in People's Education and Skills

Q: What is free tuition?

A: "Free tuition" means OSAP grants would equal or exceed:

- Actual tuition for a regular college diploma program at an Ontario college; or
- Actual tuition for an undergraduate arts and science program at an Ontario university; or
- Average tuition for a regular college or undergraduate arts and science program for a student in a high-cost program (examples include dental hygiene or engineering).

Thousands of students will have free tuition because the amount of their total OSAP grants will exceed the amount of their tuition.

Q: What do you mean by average tuition?

A: For students attending a university, average tuition refers to the average tuition for undergraduate Arts and Science programs across the province (i.e., \$6,712 in 2018-19). For students attending college, average tuition refers to the average tuition for regular college diploma programs across the province (i.e., \$3,026 in 2018-19).

Q: Is the government doing anything to increase financial assistance for students in postsecondary studies on a part-time basis?

A: The main focus of OSAP is to provide financial support for students studying in full-time programs. However, support is available for part-time students through:

- Canada Student Grant for Part-Time Students with Dependents (up to \$1,920 per academic year);
- Canada Student Grant for Part-Time Studies (up to \$1,800 per academic year);
- Part-Time Canada Student Loan (up to a maximum of \$10,000); and
- Ontario Part-Time Grant (up to \$500 per academic year).

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Branch: Labour Economics Branch / Office of Economic Policy

Expanding the Framework for Defined Contribution Pension Plans

Q: Why is the government looking to expand the legislative and regulatory framework for defined contribution (DC) plans?

A: The government recognizes that the current legislative and regulatory framework for DC plans should be further expanded and modernized to reflect the increasing importance of DC plans as part of the retirement income security of Ontarians.

Due to changes in the labour market and overall economy, DC plans now account for a much larger share of workplace pension plans in Ontario.

The number of individuals retiring with DC pension plans is expected to increase significantly over the next decade. As these individuals will be responsible for managing their pension savings, it is increasingly important that individuals have the tools they need to manage longevity and investment risks as well as options to draw down their savings in an efficient and cost effective manner.

Q: How does the government plan to increase DC plan transparency? Will DC pension statements and fees be addressed?

A: Effective disclosure is a priority for the Ontario government. It is important that DC plan members have the necessary information to make informed decisions as they save for retirement and later draw down their accumulated savings.

The government has committed to engaging with DC plan sponsors, the financial services industry, and pension experts on potential changes to annual statements.

As plan fees have a large impact on the overall performance of DC plans, the government will engage with stakeholders to consider new tools that would allow retirees to draw down savings in an efficient and cost-effective manner as part of the modernization of the DC pension plan framework.

Q: What additional options are the government considering for payouts during the “decumulation phase” of retirement?

A: To assist in the development of the potential options for increasing the efficiency and cost-effectiveness of the “decumulation phase”, the government will seek a broad array of stakeholder perspectives, including the federal government, the financial services industry, and pension experts.

Q: When will stakeholder engagement and consultation take place on DC plan annual statements and options for payouts during the “decumulation phase”?

A: The government is committed to engaging with DC plan sponsors, the financial services industry and pension experts on potential changes to annual statements and on new approaches to managing the DC payout phase in retirement. It is anticipated that the government will begin engagement on both of these issues this summer.

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Branch: Pension Policy Branch, Income Security and Pension Policy Division

Helping Seniors

Lowering Public Transit Costs for Seniors

Q: Can you share more details about the proposed Seniors' Public Transit Tax Credit?

A: We would like to encourage more seniors across the province to take advantage of public transit, so we are proposing a new refundable public transit tax credit for seniors age 65 and over.

- The new credit will provide a benefit of 15% of eligible public transit costs per year.
 - The 15% rate would maintain the level of support for seniors who were receiving the full benefit of the federal Public Transit Tax Credit – which will end as of June 30, 2017 – and increase support for others.
- The credit is expected to provide seniors with an annual benefit of approximately \$130, on average.
- Further details about the proposed credit will be announced in time for the July 1, 2017 implementation date.

Q: Will the proposed seniors' public transit tax credit apply to all transit passes? Will the proposed seniors' public transit tax credit apply to single ride tickets? Will specialized transit services – such as Wheel Trans – be covered by the credit?

A: We will take into account the needs of seniors and determining what public transit expenses will be covered under the new tax credit. We will work with the Canada Revenue Agency that will help deliver the proposed program.

- Further details about the proposed credit will be announced in time for the July 1, 2017 implementation date.

Q: Why is the new tax credit going to be refundable?

A: By proposing a refundable tax credit, the benefit would be extended to lower income seniors who have little or no tax payable, since a refundable credit can be received even if you don't owe any tax.

- A non-refundable tax credit, like the federal credit which ends in July 2017, would not benefit lower income seniors who have little or no tax payable.

- With the refundable credit, we would be lowering the costs to ride transit for all seniors. This is just another example of how we are making things more affordable and supporting a better quality of life for seniors.
- Details about eligibility for the credit will be announced in time for the July 1 2017 implementation date.

Other

Q: Why is Ontario introducing a Public Transit Tax Credit when the federal Public Transit Tax Credit was found to be ineffective and was eliminated as a result?

A: The primary intent of the proposed OSPTTC is to provide support to seniors for the cost of public transit, and this credit would provide relief to many seniors. The tax credit would be refundable and, as a result, would provide relief to lower-income seniors who do not owe income tax - unlike the federal Public Transit Tax Credit.

- Ontario wants to ensure that seniors do not face unnecessary barriers to participating in their communities. The OSPTTC will help seniors cover some of the costs of accessing public transit.

Q: How much would the proposed Seniors' Public Transit Tax Credit cost? How is Ontario planning to pay for it?

A: The Ontario Seniors' Public Transit Tax Credit is estimated to cost \$10 million, annually and is expected to benefit approximately 65,000 seniors.

The cost of this proposed measure has been incorporated into Ontario's fiscal plan. This proposed credit would provide a valuable source of support for seniors who use public transit.

Q: How does this credit differ from the federal Public Transit Tax Credit?

A: The Ontario Seniors' Public Transit Tax Credit would be refundable and, as a result, would provide relief to lower-income seniors who do not owe tax – unlike the non-refundable federal Public Transit Tax Credit, which is ending on June 30, 2017, that provided little benefit to individuals with little or no tax owing.

The credit would provide a benefit to Ontarians aged 65 and older, unlike the federal credit, which was available to taxpayers of all ages. Further details about the Ontario Seniors' Public Transit Tax Credit will be announced in time for the July 1, 2017 implementation date.

Helping with Everyday Costs

Delivering the Largest Single Reduction to Electricity Rate in Ontario's History

Q: What are the costs associated with the various electricity price mitigation initiatives?

A: The government is investing \$1.4 billion in 2017–18 towards Electricity Cost Relief Programs. This includes the Ontario Rebate for Electricity Consumers and the Ontario Electricity Support Program, the Rural and Remote Rate Protection Program and the new First Nations On-Reserve Delivery Credit.

The Affordability Fund was also established in 2016–17. Targeted electricity customers, identified by local distribution companies, could receive energy efficiency measures (e.g., energy-saving light bulbs, programmable thermostats, cold climate air source heat pumps) at no or minimal cost.

The Ministry of Energy continues to finalize program details.

Q: Why are there still costs related to the Ontario Clean Energy Benefit program, didn't it end a while ago?

A: The Ontario Clean Energy Benefit (OCEB) program ended December 31, 2015.

The original regulation that established the Ontario Clean Energy Benefit did not specify an end date for the government's liability to pay OCEB to consumers.

As part of the legislation for the Ontario Rebate for Electricity Consumers, a cut-off date for OCEB was established. Local distribution companies and unit sub-metering providers have until August 1, 2017 to submit their claims (customers have until February 1, 2017 to file a claim).

The Ministry of Energy received funding to offset its forecast of \$20.8 million to address remaining OCEB trailing liabilities.

Elimination of the Drive Clean Emission Test Fee

Q: What changes are occurring to the Drive Clean program?

A: Ontario is eliminating the \$30 Drive Clean test fee for light-duty vehicles, such as most cars, vans, SUVs and light trucks, as of April 1, 2017. In addition, the Province is eliminating testing requirements for light-duty vehicles when they are re-sold.

Drivers whose vehicles do not pass the regular Drive Clean test will have to pay for any subsequent retest at their own expense.

Q: Why has the fee been eliminated?

A: The Province is making lives easier for Ontarians by improving air quality while lowering costs for Ontario households is part of our plan to create jobs, grow our economy and help people in their everyday lives.

Q: Why didn't the Province just eliminate the Drive Clean program?

A: Ontario's Drive Clean Program tests 2.3 million vehicles per year. It helps reduce emissions that cause smog and poor air quality-cutting emissions from vehicles by about one-third each year, which ensures cleaner air and better health for everyone in the province.

Helping Parents

OHIP+: Children and Youth Pharmacare

Q: How does the new OHIP+: Children and Youth Pharmacare program impact children and youth who already receive prescription drug coverage?

A: OHIP+: Children and Youth Pharmacare will be available to all children and youth aged 24 and under, regardless of family income. It will completely cover the cost of all medicines funded through the Ontario Drug Benefit program. There will be no deductible and no co-payment.

Families on social assistance who currently receives benefits under the Ontario Drug Benefit program will see no change in their coverage. Families with private drug plans will see no change if the medications they are currently using are funded through the Ontario Drug Benefit program.

The Ministry will work with the private insurance industry and the pharmacy sector to ensure a smooth transition to OHIP+: Children and Youth Pharmacare program.

Q: How much will OHIP+: Children and Youth Pharmacare cost? How will it impact employers including the government, as employer of the Ontario Public Service?

A: To ensure a smooth transition, the Ministry of Health and Long-Term Care will convene a working group with representatives from the private insurance industry to discuss the implications of introducing the OHIP+: Children and Youth Pharmacare program and opportunities to ensure Ontarians continue to receive value for money from their private health insurance.

Q: In the 2016 Budget, the government announced that it would conduct consultations to develop a Patients First Drug Program. Does the government intend to consult?

A: After the 2016 Budget announcement, the Province consulted with Ontarians on the proposed changes and received feedback from seniors and representative organizations. The government continues to receive feedback from Ontarians for an improved Ontario Drug Benefit, with a view to creating a fair, sustainable system that remains among the most generous in Canada.

Childcare

Q: Why is the government providing a subsidy to only approximately 60 per cent of new child care spaces, and not to all new child care spaces?

A: The government's investments will support increased access to affordable, quality licensed child care across the province. By 2017–18, investments will support access to licensed child care for 24,000 more children up to four years old through new fee subsidy spaces and support for new licensed child care spaces in schools. This will ensure that parents with low and middle-incomes can benefit in a variety of ways, and will reduce waitlists.

In order to provide care that is flexible, convenient and in line with parents' needs, the government will also continue to work with schools and municipalities to provide funding through a mixed approach of school, community, and home-based expansion.

Investing in Elderly Persons Centres

Q: What are Elderly Person Centres?

A: Elderly Persons Centres (EPCs) are community centres that provide social and recreational programs to promote wellness for seniors. They may also offer preventive health care education and support services to help seniors stay active and independent for as long as possible.

There are currently 263 EPCs serving more than 100,000 seniors in Ontario, providing programs and services such as Meals on Wheels, congregate dining, friendly visits, falls prevention and exercise classes, and transportation services.

Q: The government announced funding to create 40 new Elderly Person Centres by 2018–19. Where will they be located?

A: There are currently 263 provincially funded EPCs across Ontario of which about 70 per cent are located in urban areas.

The government is providing \$8 million over the next three years, allowing for an additional 40 new EPCs by 2018–19 to meet the growing needs of seniors and help support some of Ontario's most vulnerable populations (i.e., rural, remote, multicultural communities, Francophone and indigenous communities).

The Ministry of Seniors Affairs will provide details at a later date.

Connecting Seniors with Community, Culture and Technology

Q: What is the Seniors Community Grant program?

A: The Seniors Community Grant Program aims to support small grassroots organizations that work exclusively with seniors. Grants support social inclusion, learning, volunteerism and community engagement. Since 2014, the program has supported 923 projects reaching approximately 256,000 seniors.

Q: How much is the government investing in the Senior Community Grant program?

A: In the 2014 Budget, the government announced \$1 million in annual funding for the Senior Community Grant program. In the 2016 Budget, this commitment was doubled to \$2 million per year.

In the 2017 Budget, the government will continue existing base funding for the program (\$4 million) and provide additional new investments (\$7 million), bringing the total commitment to \$11 million over three years to support facilities to help seniors engage socially, volunteer and continue their lifelong learning.

2015 Budget: Ontario is providing more opportunities for seniors to participate in their communities by doubling the Seniors Community Grant Program to \$2 million per year. The Seniors Community Grant Program is focused on encouraging initiatives and projects in the non-profit sector that promote greater social inclusion, volunteerism, education and community engagement for seniors. Since its creation in the fall of 2013, more than 40,000 seniors across the province have benefited from this program.

2014 Budget: Ontario is making it easier for seniors to stay safe, active and engaged in their communities by doubling the size of the new Seniors Community Grant Program to \$1 million per year. The program helps seniors continue their learning in areas like technology and financial literacy, and develop a stronger sense of social inclusion. This initiative is another step towards making Ontario the best place in which to age actively and in good health, to live longer and to live well.

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Lowong Public Transit Costs for Seniors

Q: What is the Province doing to help Seniors with the costs of public transportation?

A: To help Ontario's seniors participate in community life, Ministry of Finance Minister Charles Sousa announced on April 13, 2017, a new Ontario Seniors Public Transit Tax credit for all Ontarians aged 65 or older, covering eligible public transit costs as of July 1, 2017.

Q: What are the details of the Seniors Transit Tax Credit?

A: The program will begin on July 1, 2017. Details about eligibility for the credit would be announced in time for the July 1 implementation date.

The tax credit would provide a refundable benefit of 15 per cent for eligible public transit costs, providing an average annual benefit of \$130.

Supporting Seniors Health

Supporting Ontarians Affected by Dementia

Q: What is the government doing to help Ontarians affected by dementia?

A: An estimated 214,000 Ontarians now live with dementia. That number is expected to rise to 266,000 by 2022 and to over 430,000 by 2038. The responsibility of caring for someone living with dementia can take an enormous physical, emotional and financial toll on care partners — family members, friends and neighbours. Nearly half of people living with Alzheimer's or other dementias have caregivers who are distressed.

Ontario's new Dementia Strategy will provide over \$100 million over three years to support people with dementia and those who care for them through better coordinated and enhanced services. This will include funding to expand province-wide access to community programs and other investments to enhance access to

care, information and support from as early as possible once a diagnosis is made.

Increasing Investments in Long-Term Care

Q: What is the government doing to help seniors in Long-Term care homes?

A: The growing population with diverse care needs will require a range of resources across the health care continuum that retain choice, ensure safety and maintain quality for Ontarians. Long-term care is a critical part of that continuum. That is why government is investing an additional \$58 million dollars for care in long-term care homes.

The Province has committed to redevelop more than 30,000 LTC beds by 2025.

Since the Enhanced Long-Term Care Home Renewal strategy was announced in 2014, the Province has announced plans to fund the redevelopment of 963 LTC beds in the communities listed below:

- 100 in Aylmer;
- 120 in Brampton;
- 95 in Cambridge;
- 69 in Iroquois Falls;
- 72 in Mattawa;
- 96 in Mount Forest;
- 160 in Niagara-on-the-Lake;
- 59 in Quinte West;
- 32 in Stouffville; and
- 160 in Whitby.

Supporting the quality of the care provided in long term care homes is a priority for this government; that is why in 2017-18 we are investing an additional \$15 million in the funding provided to homes for food. This represents an unprecedented 6 per cent increase in funding to ensure that the nutritional requirements for food improves for all residents, including those residents with ethno-cultural food preferences, and those with complex feeding needs.

Q: What is respite care? What kind of respite support is the government providing for unpaid caregivers of seniors, people with dementia or other home care patients?

A: Ontario is helping people who provide care at home for an aging parent or other person with a special health condition, so that they can take a break for rest or other priorities and learn about the best ways to care for their loved ones.

Respite refers to care that allows care partners and family members to take a temporary break from their caregiving responsibilities at home. Respite care services may include providing a person with dementia and care partners with access to adult day programs, overnight care or staying at a long-term care home for a short time, and home care services.

The government is providing \$20 million for respite care in 2017–18 (total of \$120 million for three years). This initiative aims to enhance capacity within the home and community care sector to offer flexible respite services.

This may include care partner spending accounts that provide individuals or family members with a budget to purchase the services they require, including in-home respite, and overnight respite services.

Last year, the government provided approximately 600,000 additional hours of respite services for caregivers across the province, to give caregivers a well-earned break from doing the work of caring for a loved one.

Source: (<https://news.ontario.ca/mohltc/en/2017/04/statement-from-minister-of-health-on-national-family-caregiver-day.html>)

Behavioural Supports Ontario

Q: What is the government doing to prepare for the expected growth in the demand for long-term care?

A: Behavioural Supports Ontario helps residents with complex behaviours related to dementia, mental health or other neurological conditions.

Ontario will continue to invest in Behavioural Supports, with this year's investment growing to \$64 million annually. These supports are critical to providing specialized supports and services to meet the needs of older people with cognitive impairment.

The funding will support residents' caregivers, including both staff and families including through:

- Enhancing services and hiring specialized staff to meet regional needs for older adults with cognitive impairments exhibiting complex and responsive challenging behaviours.
- Promoting seamless care and the coordination between services providers across sectors.

In some long term care homes, within a year of the Behavioural Supports Ontario team's arrival, staff was able to reduce the use of antipsychotic medications by almost half and the homes reported significantly less instances of aggressive behaviour and conflict among residents.

CHAPTER III: INCOME SECURITY AND PENSION POLICY DIVISION

Financial Literacy for Newcomers

Q: Why is the government providing funding to Credit Canada?

A: The government is investing over \$215,000, over two years, to Credit Canada in order to provide financial literacy training and tools to newcomers across Ontario in a program called *Newcomers & Money 101*.

Q: What is Newcomers & Money 101?

A: *Newcomers & Money 101* will build on the work of settlement agencies to support newcomers' financial literacy. Up to 250 financial literacy workshops will be provided over the next two years, and will focus on navigating the Canadian banking system, understanding budgeting and money management, handling credit and protecting oneself from fraud.

Q: Isn't the government already funding settlement services for newcomers?

A: The Ministry of Citizenship and Immigration (MCI) supports newcomers through its Newcomer Settlement Program, however, funding for financial literacy programs is not currently part of this MCI program. *Newcomers & Money 101* will build on the support that is already provided to newcomers in Ontario.

Q: What is Credit Canada?

A: Credit Canada Debt Solutions is a non-profit agency specializing in credit counseling and consolidating debt.

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Branch: Income Security Policy Branch, Income Security and Pension Policy Division

Pooled Registered Pension Plans

Q: Are pooled registered pension plans (PRPPs) available in Ontario? Why was a federal-provincial multilateral agreement required?

A: Yes, PRPPs can now be made available in the province.

The federal government and provinces with PRPP legislation in force, including Ontario, have negotiated a multilateral agreement for the regulation and supervision of PRPPs with members in more than one jurisdiction (i.e., multi-jurisdictional PRPPs). This agreement assists in creating a coordinated approach

to the administration and regulation of PRPPs across the country. The agreement was effective March 31, 2017. With the agreement in effect in Ontario, PRPPs can now be made available in the province.

Q: How many PRPPs are currently registered throughout Canada?

A: Federal: As of April 2017, the federal Office of the Superintendent of Financial Institutions had registered four plans belonging to the following administrators: Industrielle Alliance Assurance et Services Financiers Inc.; London Life; Manulife; and Sun Life. As of March 31, 2017, these plans may also be offered in Ontario.

Quebec: As of April 2017, Quebec had registered nine plans belonging to the following administrators: National Bank; Sunlife; Societe de gerance des fonds FMOQ Inc.; Morneau Shepell; London Life; Manulife; Industrial Alliance; Desjardins; and Compagnie Trust Royal/RBC.

Q: Who are PRPPs intended to benefit? How?

A: **Employees & Self-Employed:** PRPPs are intended to make it easier to save for retirement by providing employees and self-employed individuals with an additional savings vehicle that is low cost (achieved through a simple design and economies of scale), professionally managed, and portable from one workplace to another.

Employers: PRPPs can result in lower employer taxes and withholdings than Group RRSPs, since employer contributions are not subject to the Employer Health Tax, Employment Insurance premiums, Canada Pension Plan contributions or workers' compensation premiums.

Business: PRPPs are intended to be particularly beneficial for small and medium-sized businesses that may not have the capacity to offer traditional pension plans.

Q: How are PRPPs different from RRSPs and how will they be more effective than RRSPs in encouraging people to save for retirement?

A: PRPPs differ from Registered Retirement Savings Plans (RRSPs) in a number of important respects, including the pooling of accounts for investment purposes, the higher legal standard of care applied to administrators, and the requirement that PRPPs be offered at low-cost to ensure that individuals' retirement savings and investments are not eroded by high management fees.

Similar to RRSPs, individuals' annual PRPP contributions are deductible in calculating their annual taxable income. Also, similar to group RRSPs, employer PRPP contributions would be tax deductible. However, unlike employer contributions to a group RRSP, employer PRPP contributions are excluded from salaried compensation of employees and would therefore not be subject to

Employer Health Tax, Employment Insurance Premiums, Canada Pension Plan contributions or workers' compensation premiums.

Finally, unlike RRSPs, PRPP funds are required by legislation to be locked-in until a specified age to ensure they are used for retirement income (some exceptions exist).

Superintendent Powers

Q: How is the government taking steps to strengthen regulatory oversight of workplace pension plans? What are administrative monetary penalties (AMPs)?

A: The *2016 Economic Outlook and Fiscal Review* announced that Ontario is taking steps to strengthen the regulatory oversight of workplace pension plans. As part of this, in the fall of 2016, amendments were introduced to the *Pension Benefits Act (PBA)* to provide the Superintendent of Financial Services (Superintendent) with the authority to impose administrative monetary penalties (AMPs) in the pension sector.

Q: What are administrative monetary penalties (AMPs)?

A: An AMP is a financial penalty that can be imposed for failure to comply with legislative and regulatory requirements. The primary purpose of an AMP is to encourage compliance rather than to punish for non-compliance. A secondary purpose is to prevent a person from deriving, directly or indirectly, any economic benefit from failing to comply with legislative and regulatory requirements.

Q: Why is the government implementing administrative monetary penalties?

A: The proposed amendments to the *Pension Benefits Act (PBA)* and the regulations required to implement the AMP regime respond to recommendations from both the Auditor General of Ontario and the Expert Advisory Panel's Final Report on the Mandates of the Financial Services Commission of Ontario, the Financial Services Tribunal, and the Deposit Insurance Corporation of Ontario to increase the Superintendent's powers under the PBA.

Q: What are the maximum penalties that can be fined?

A: The unproclaimed provisions in the *Pension Benefits Act* relating to administrative penalties provide that the maximums for AMPs (summary and general) would be \$25,000 for corporations and other entities that are not individuals; and \$10,000 for individuals.

Q: Are AMPs currently used in any other sector?

A: Currently, the Superintendent of Financial Services has the authority to impose AMPs under the Insurance Act, 1990, Mortgage Brokerages, Lenders and Administrators Act, 2006, Credit Unions and Caisses Populaires Act, 1994, Compulsory Automobile Insurance Act, 1990 and Automobile Insurance Rate Stabilization Act, 2003.

There is evidence that the introduction of AMPs can improve compliance rates. For example, AMPs in the mortgage sector have existed since 2008 and in 2013/14 there was a 95% compliance rate by mortgage brokers for submitting statutory filings.

Q: When will the Superintendent of Financial Services be able to impose AMPs in the pensions sector?

A: The government will be posting regulations for public consultation soon. Once finalised, regulations will bring into force the AMPs regime in Ontario.

Q: Apart from AMPs, what other measures is the government taking to further expand the powers of the Superintendent of Financial Services (Superintendent)?

A: Additional amendments are being introduced to the *Pension Benefits Act* (PBA), which would give the Superintendent new powers, including the authority to direct a plan administrator to provide plan beneficiaries with information specified by the Superintendent, and to hold a meeting to discuss matters specified by the Superintendent.

The government will continue to develop other amendments to better protect pension plan beneficiaries and ensure more effective and efficient regulation of the sector.

Q: What is the benefit of giving the Superintendent these new powers?

A: These new powers will assist the Superintendent in protecting pension plan beneficiaries by helping to provide more disclosure to plan members as required. For example, if a plan is severely underfunded, this information could be communicated to members by way of a meeting called by the Superintendent, rather than members having to wait until their next member statement to be informed of the reduction in the funded status of their plan. Similar powers already exist at the federal level.

Prepared by: Lauren Kappius (7-1915)

Branch: Pension Policy Branch, Income Security and Pension Policy Division

Target Benefit Pension Plans

Q: What are target benefit pension plans?

A: Target benefit pension plans combine features of defined benefit and defined contribution plans. They “target” a specified retirement pension that is funded by fixed contributions, but can address funding shortfalls by reducing accrued benefits, including pensions in pay.

Q: Why is Ontario considering target benefit pension models?

A: Target benefit pension plans have the potential to increase workplace pension plan coverage by providing employers and employees with a more flexible pension option. With a more predictable cost structure, employers that may not be able to manage the risks of a defined benefit plan would have another option to offer employees. Members and retirees would also benefit from pooling of investment risk and longevity risk.

Q: Would Ontario consider implementing the New Brunswick “shared risk” model or other target benefit models in Canadian jurisdictions?

A: In developing an Ontario framework for target benefit pension plans, we will carefully consider the details of other Canadian models, such as New Brunswick to see which elements, if any, may be appropriate for plans in Ontario.

The federal government introduced legislation in fall 2016 to amend their *Pension Benefits Standards Act* to provide a framework for the establishment and administration of both single employer and multi-employer target benefit pension plans. While all details of the federal framework have not yet been released, we will also consider their proposed model as we develop the Ontario framework for target benefit plans.

Q: Why did we only consult on multi-employer pension plans?

A: While numerous target benefit multi-employer pension plans (MEPPs) exist in Ontario, there is no specific framework for target benefit pension plans in the *Pension Benefits Act* (PBA). For the purposes of the PBA, these plans are classified as defined benefit plans. The stakeholder consultation undertaken by Ontario in July 2015 was to inform the development of a comprehensive framework for target benefit MEPPs that would replace the time-limited funding regulations that are currently in place for certain MEPPs, known as specified Ontario multi-employer pension plans (SOMEPPs). These regulations are set to expire later in 2017.

The government is committed to exploring options for a target benefit MEPP framework for plans that do not currently meet the SOMEPP criteria (e.g., MEPPs that exist outside of a unionized environment). The establishment of a framework for such plans raises a number of issues that must be addressed (for example - ensuring that the interests of employees are effectively represented in plan governance).

Currently, there are no target benefit single-employer pension plans (SEPPs). Additional issues may need to be addressed in a framework for SEPPs. For example, SEPPs have a higher risk of winding up than MEPPs.

Feedback from consultations relating to MEPPs will help in subsequently developing a framework for target benefit SEPPs.

Q: What concerns did stakeholders express in the consultation?

A: While submissions were supportive of a new framework, including a solvency funding exemption, some concerns were raised that certain MEPPs may face challenges transitioning to a new framework and implementing changes in funding rules.

The government is committed to providing a transition period for plans to make necessary adjustments. The government intends to announce its proposed framework later this spring and release draft regulations for public consultation later this fall. This will provide stakeholders with an opportunity to provide feedback on the proposed framework.

Q: How will the solvency funding review, currently underway, affect a new target benefit framework for MEPPs?

A: Ontario will ensure that any proposed target benefit MEPP framework will align with changes to the solvency funding framework for DB plans.

Q: Is the government planning to extend the temporary solvency funding exemption currently in place for specified Ontario multi-employer pension plans (SOMEPPs)?

Temporary solvency funding relief was first provided to SOMEPPs in 2007. The exemption was extended several times and is now set to expire on August 31, 2017.

The government intends to announce its proposed target benefit MEPP framework later this spring and release draft regulations for public consultation in fall 2017. In developing a regulatory framework for target benefit MEPPs, the government remains committed to providing a transition period for plans to make necessary adjustments.

Prepared by: Joanna Babula (416) 326-0077/ David Kearney (416) 212-7980

Branch: Pension Policy Branch, Income Security and Pension Policy Division

Variable Benefits

Q: What are variable benefits and how do they work?

A: Section 39.1 of the *Pension Benefits Act* (PBA) would permit pension plans that provide DC benefits to directly pay out retirement benefits, referred to as "variable benefits", to a retired member.

Variable benefit payments are intended to be generally the same as payments from life income funds (LIFs) governed by Schedule 1.1 of Regulation 909 under the PBA. The retired member may choose, on an annual basis, a payment amount subject to a maximum, similar to payment amounts from a LIF.

With the introduction of variable benefits, plan administrators would have another option for paying funds from the plan. If a pension plan that wishes to allow for these types of payments, the plan terms would have to be amended to permit variable benefit payments and the retired member would have to opt for these payments.

Regulations are required to implement the variable benefits provisions in the PBA.

Q: Why is the government making changes to allow DC plans to pay retirement income directly to retirees? Why are variable benefits being introduced?

A: Currently, individuals with retirement savings in a DC plan must transfer their money to a financial institution in order to receive retirement income. The provisions enacted in the *2017 Budget Bill* and the unproclaimed sections in the PBA related to variable benefits would allow pension plans that provide DC benefits to provide retired members with the additional option of receiving income directly from the plan.

Retired members who wish to receive variable benefit payments would be required to establish a variable benefit account (VBA). Retired members would continue to benefit from the investment expertise of pension fund managers and from cost efficiencies due to scale.

Q: Changes were made to the PBA since 2010 that would have permitted variable benefits. Why is the variable benefits regime not yet in force?

A: In the *2010 Budget Bill*, the PBA was amended to add section 39.1, allowing plans that provide DC benefits to pay pension benefits in any manner authorized by the *Income Tax Act* (Canada).

In April 2014, a description of the proposed regulations was posted to Ontario's Regulatory Registry for public consultation. The 2014 posting asked stakeholders to comment on whether unlocking and portability of DC accounts would be desirable options. Based on stakeholder feedback, further amendments to the PBA were made in the *2015 Budget Bill*.

Subsequent to the 2015 changes, further amendments were identified that would complete the variable benefits regime.

Q: Why is the government making amendments to the variable benefits provisions in the 2017 Budget Bill?

A: The changes outlined in the *2017 Budget Bill* would complete the variable benefits regime. If passed, they would:

- make additional amendments to unproclaimed section 39.1, in particular, to add pooled registered pension plans as another vehicle from which funds may be transferred into a variable benefit account;
- add a new provision to address the treatment of variable benefit accounts for family law purposes upon spousal relationship breakdown, including the valuation and division of variable benefit accounts and transfer of a lump sum from the account;
- add a new section to address the death benefit payable from a variable benefit account;
- repeal subsections of section 39.1 that address limitations on transfers from a variable benefit account;
- make consequential amendments to the PBA, the *Building Ontario Up Act (Budget Measures), 2015* and the *Family Law Act* with respect to variable benefits.

Prepared by: Alana Deokiesingh/Natalie Wong/ Claire Woodcock

Branch: Pension Policy Branch, Income Security and Pension Policy Division

Reviewing the Solvency Funding Framework

Q: Why has the government been undertaking a review of the current solvency funding framework?

A: Over the last several years, sponsors of single employer defined benefit pension plans have faced funding pressures associated with the low interest rate environment. Many sponsors continue to face challenging contribution requirements as a result of persistently low interest rates.

An essential aspect of the government's commitment to improving retirement security is Ontario's work to improve the framework for the regulation of defined benefit pension plans. At the heart of these improvement efforts is the objective of bringing the framework into alignment with current economic realities in a way that best supports plan sustainability, affordability, and benefit security.

Q: What progress has been made on the review?

A: A stakeholder reference group was established to ensure that any reforms to the existing solvency funding framework are informed by a broad range of stakeholder opinions. Facilitated by David Marshall, roundtable discussions were held with representatives from labour, employers, retirees, and plan administrators, including those of jointly sponsored pension plans in the broader public sector. Consultations have also taken place with various professional associations and experts.

In July 2016, the government released a consultation paper on how best to revise the funding framework for defined benefit pension plans. The funding reform options presented in the paper can be categorized under two different approaches:

- Approach A continues to require solvency funding on a modified solvency basis.
- Approach B is based on strengthened going concern requirements, with limited links to current solvency funding requirements.

The consultation period closed on September 30, 2016. Over 90 submissions were received from interested individuals and stakeholder groups.

The government has also retained actuarial consultants to perform analysis of various funding reform options that were discussed in the consultation paper. The government is currently assessing the reform options presented for consultation as well as stakeholder feedback received.

Q: What are the next steps in the solvency funding review?

A: The government intends to announce the guiding principles of a new funding framework this spring. Measures to support transition to the new framework will also be implemented this spring.

Q: What reforms will be introduced to solvency funding in Ontario? Will Ontario introduce a system that eliminates solvency funding, as done in Quebec?

A: The government intends to announce the guiding principles of a new funding framework this spring.

Q: What transition measures will be introduced?

A: Measures to support transition to the new framework will be implemented this spring. Details on these measures will be announced at the same time as the announcement on the guiding principles.

Q: The *2015 Ontario Economic Outlook and Fiscal Review* announced that government would initiate, on an expedited basis, a review of the current solvency funding framework. Why hasn't the government announced its reforms by now?

A: The review has involved extensive stakeholder engagement, including in-person consultations facilitated through a Stakeholder Reference Group; roundtable discussions with representatives from labour, employers, retirees, and plan administrators, including those of jointly sponsored pension plans in the broader public sector; and individual stakeholder meetings.

The government also released a consultation paper in July 2016 and reviewed more than 90 submissions that were received commenting on possible approaches to modify the funding framework for defined benefit pension plans.

Funding rules for defined benefit pension plans are complex and can have a significant impact on all stakeholders. As a result, the government is conducting a robust analysis of the feedback it has received so it can craft a package of reforms funding rules that best achieves the review's goals. The government intends to announce the guiding principles of a new funding framework this spring.

Q: What is David Marshall's role in the solvency funding review?

A: As announced in the *2016 Budget*, the government appointed David Marshall, advisor on auto insurance and pensions and former president and CEO of the Workplace Safety and Insurance Board, to facilitate the solvency funding review process with a view to assisting the Ministry of Finance in developing a balanced set of solvency funding reforms that would focus on plan sustainability, affordability and benefit security. He is also assisting in ensuring that the review is informed by feedback from a diverse group of stakeholders.

Prepared by: Louis Kalikow (416) 327 - 1961 / Lauren Kappius (416) 327 - 1915

Branch: Pension Policy Branch, Income Security and Pension Policy Division

Missing Beneficiaries

Q: How will the government address the issue of missing pension plan beneficiaries?

A: The government recognizes that there is a gap in the legislative and regulatory framework concerning pension plan beneficiaries that are difficult to locate. Currently there are no guidelines for locating missing pension plan beneficiaries and no way to deal with monies owed to plan beneficiaries if they do not come forward to claim their benefits. To address this issue, the government will:

- Instruct the Superintendent to develop a policy to provide direction to pension plan administrators on steps they should take to locate beneficiaries;
- Provide the Superintendent with the legislative authority to waive the requirements of providing periodic statements in situations where a plan administrator can demonstrate that the beneficiary is considered missing;
- Consider a registry where employers or administrators could post information regarding missing beneficiaries and where individuals could search for missing benefits; and
- Explore options to allow the wind up of pension plans in cases where missing beneficiaries remain, while continuing to protect the benefits of those who are missing.

Prepared by: Vinod Armoogum

Branch: Income Security and Pension Policy Division

Climate Change Action Plan

Q: What is the Climate Change Action Plan?

A: The Climate Change Action Plan, released in June 2016, identifies key actions that will support the government's Climate Change Strategy, including initiatives that are intended to be funded from carbon allowance proceeds.

Q: What is the market-based carbon pricing program?

A: Ontario's market-based carbon pricing program, a key part of the government's Climate Change Strategy, is where a "cap" is set on emissions and allowances are auctioned by the Government and "traded" by market participants to ensure compliance with the cap. The cap drops each year to lower emissions. Large emitters must have enough allowances to match their emissions. If they do not, they must obtain the allowances (purchase or trade) or face enforcement proceedings. The program creates a market for pollution allowances and credits.

Q: What is the Greenhouse Gas Reduction Account (GGRA)?

A: The Greenhouse Gas Reduction Account (GGRA) is a Designated Purpose Account (DPA) through which the amounts of investments funded by carbon allowance proceeds will be tracked. The full amount of revenues tracked through this account is required, by legislation, to be invested transparently in initiatives, such as those outlined in the Climate Change Action Plan, that are reasonably likely to reduce, or support the reduction of, greenhouse gases.

Q: How much in proceeds is the market-based carbon pricing program expected to generate?

A: The market-based carbon pricing program is expected to generate proceeds of \$1.8 billion in 2017-18 and \$1.4 billion annually, starting in 2018-19. Auctions will be held quarterly with proceeds from five auctions recognized in 2017-18.

The first auction of emissions allowances was held on March 22, 2017, and generated \$472 million in proceeds.

Q: How will the government address less than expected proceeds in subsequent auctions?

A: Auction proceeds are subject to market volatility, changes in carbon pricing, currency exchange rates and other external events impacting demand.

Investments are subject to the availability of auction proceeds and evaluation by the Minister of the Environment and Climate Change; and will be reviewed annually as part of the government's annual planning process.

Q: Is the government balancing the budget by using GGRA proceeds?

A: As set out in the *Climate Change Mitigation and Low-carbon Economy Act, 2016*, carbon allowance proceeds must be used for initiatives that are “reasonably likely to reduce or support the reduction of greenhouse gas.”

The Climate Change Action Plan identified initiatives that are intended to be funded from carbon allowance proceeds. These planned investments are subject to the availability of carbon allowance proceeds and evaluation of the greenhouse gas reduction potential by the Minister of Environment and Climate Change. Priority investment areas will make it easier for Ontarians to make better choices that benefit them and support a low-carbon economy.

The government’s approach to investing proceeds will be balanced, strategic, and transparent, while ensuring that funding is only used for identified initiatives that are eligible for proceeds.

Q: How much in carbon allowance proceeds is expected in 2017-18, and how much is forecasted to be spent? How much of the spending is on new initiatives?

A: The market-based carbon pricing program is expected to generate proceeds of \$1.8 billion in 2017-18. Auctions will be held quarterly with proceeds from five auctions recognized in 2017-18. The first auction of greenhouse gas allowances was held on March 22, 2017, and generated \$472 million in proceeds.

The Climate Change Action Plan identifies initiatives that will reduce greenhouse gas emissions. Initiatives will be implemented as proceeds are realized. Initiatives to be supported by carbon allowance proceeds in 2017-18 include:

- **Approximately \$800M for Supporting Homes and Businesses** to help homes and companies adopt low carbon technologies. Examples of programs include:
 - Social Housing Retrofits
 - Exchange program for inefficient wood-heating appliances.
- **Approximately \$90M for Promoting Electric Vehicles (EVs)** to address barriers to improve the uptake of electric vehicles. Examples of programs include:
 - Electric Vehicle Incentive Program
 - Electric Vehicle Charging Infrastructure.

- Approximately \$55M for Engaging Governments and Strengthening Partnerships to collaborate with partners to achieve emission reduction targets. Examples of programs include:
 - Municipal GHG Challenge Fund
 - Supports for municipal energy or climate change plans.
- **Approximately \$420M for Modernizing Transit, Active Transportation** to link different modes of low-carbon transportation. Examples of programs include:
 - Commuter cycling infrastructure
 - Regional Express Rail.
- **Approximately \$20M for Enhancing Research and Development** to support innovation in low-carbon clean technology. Examples of programs include:
 - Cleantech development and deployment
 - Climate Change Building Research.
- **Approximately \$5M for Preserving Agriculture, Lands and Forests** to ensure the natural environment is used in an efficient and sustainable way. Examples of programs include:
 - Increased tree planting
 - Improving agricultural soil health.
- Approximately \$410M for Implementing Green Investment Fund Initiatives and Other Investments to provide support for other greenhouse gas reducing programs.

Q: What is the process for allocating carbon allowance proceeds?

A: There will be quarterly auctions of emissions allowances. As per legislation, all proceeds are to be used for initiatives that are reasonably likely to reduce, or support the reduction of, greenhouse gas emissions. Proceeds are projected to be \$1.8 billion in 2017-18 and \$1.4 billion annually, starting in 2018-19. Planned investments are subject to the availability of carbon allowance proceeds and evaluation by the Minister of the Environment and Climate Change. Priority investment areas will make it easier for Ontarians to make better choices that benefit them and support a low-carbon economy.

Investing in People Today

Helping Newcomers Integrate in the Labour Market

Q: How many people will benefit from the Ontario Bridge Training programs?

A:

Q: What types of training does this program provide?

A:

Empowering Newcomers' Financial Literacy

Q: Why is the government providing support to help newcomers navigate the Canadian financial system? Don't banks and credit unions already provide that service?

A:

Investing in Jobs for Today and Tomorrow

Business Growth Initiative

Q: Why is the investment in the Business Growth Initiative increasing by \$200 million over five years (from \$400 million over five years [2016 Budget] to \$650 million over five years [2017 Budget])?

A: The government is continuing to support Ontario's transition to a new economy by expanding the Business Growth Initiative (BGI) to \$650 million over five years.

This will ensure Ontario is at the leading edge of research and development of transformative technologies that will make Ontario's economy more innovative, help small businesses scale up into medium-sized firms, and create more well-paying jobs.

Specifically, the BGI has expanded to support additional high-technology research, including:

- **Artificial Intelligence**, with \$50 million committed to establish the Vector Institute to produce, train and retain top talent in the field, support AI-related start-ups and generate investment from companies seeking to hire AI experts or build their AI expertise;

- **Fifth-Generation (5G) Wireless Technology**, with \$130 million to build the backbone infrastructure and testing facilities for technology like autonomous vehicles ; and
- **Autonomous Vehicles**, with \$80 million to capitalize on the economic potential of vehicles capable of sensing — and interacting with— their environment without human input, and to adapt the province's transportation infrastructure to support them.

Promoting and Diversifying Trade

Q: How are Ontario companies going to benefit from the \$50 million in investments for international trade services? What other initiatives will that money support?

A: The government is investing almost \$50 million over three years to expand Ontario's footprint in key international markets and grow the province's capacity to help businesses expand globally. With more Ontario representation in strategic locations across the world, Ontario companies can better access just-in-time market intelligence and fully leverage existing partnership. New investments will also expand the continuum of programs offered to small and medium-sized enterprises (SMEs) here at home to help more companies become exporters and assist existing ones to reach new global market and diversify their revenue source.

MIT PRRT and Scalable investments	17-18	18-19	19-20	3-year total
PRRT approved: Expand Trade Services	5.2	5.2	5.2	
Scalable Options				
Expand Trade Services (ministry programs and Ontario Chamber of Commerce)	4.3	3.7	3.7	
Foundational FTEs and Legal Support (16 permanent FTEs)	2.1	2.1	2.1	
Locally Engaged Staff from Global Affairs Canada for Int'l Offices and 5 FTEs in Toronto	5.2	5.2	5.2	
Total investments	16.8	16.2	16.2	49.2

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Transitioning to a Low-Carbon Economy

Q: What is the Climate Change Action Plan?

A: The Climate Change Action Plan, released in June 2016, identifies key actions that will support the government's Climate Change Strategy, including initiatives that are intended to be funded from carbon allowance proceeds.

Q: What is the market-based carbon pricing program?

A: Ontario's market-based carbon pricing program, a key part of the government's Climate Change Strategy, is when a "cap" is set on emissions and allowances are auctioned by the government and "traded" by market participants to ensure compliance with the cap. The cap drops each year to lower emissions. Large emitters must have enough allowances to match their emissions. If they do not, they must obtain the allowances (purchase or trade) or face enforcement proceedings. The program creates a market for pollution allowances and credits.

Q: What is the Greenhouse Gas Reduction Account?

A: The Greenhouse Gas Reduction Account is a Designated Purpose Account through which the amounts of investments funded by carbon allowance proceeds will be tracked. The full amount of revenues tracked through this account is required by legislation to be invested transparently in initiatives, such as those outlined in the Climate Change Action Plan, that are reasonably likely to reduce or support the reduction of, greenhouse gases.

Q: How much in proceeds is the market-based carbon pricing program expected to generate?

A: The market-based carbon pricing program is expected to generate proceeds of \$1.8 billion in 2017–18 and \$1.4 billion annually, starting in 2018–19. Auctions will be held quarterly with proceeds from five auctions recognized in 2017–18.

The first auction of emissions allowances was held on March 22, 2017, and it generated \$472 million in proceeds.

Q: How will the government address less than expected proceeds in subsequent auctions?

A: Auction proceeds are subject to market volatility, changes in carbon pricing, currency exchange rates and other external events impacting demand.

Investments are subject to the availability of auction proceeds and evaluation by the Minister of the Environment and Climate Change; and will be reviewed annually as part of the government's annual planning process.

Q: Is the government balancing the budget by using Greenhouse Gas Reduction Account proceeds?

A: As set out in the *Climate Change Mitigation and Low-carbon Economy Act, 2016*, carbon allowance proceeds must be used for initiatives that are "reasonably likely to reduce or support the reduction of greenhouse gas."

The Climate Change Action Plan identified initiatives that are intended to be funded from carbon allowance proceeds. These planned investments are subject

to the availability of carbon allowance proceeds and evaluation of the greenhouse gas reduction potential by the Minister of Environment and Climate Change. Priority investment areas will make it easier for Ontarians to make better choices that benefit them and support a low-carbon economy.

The government's approach to investing proceeds will be balanced, strategic, and transparent, while ensuring that funding is only used for identified initiatives that are eligible for proceeds.

Q: What is the process for allocating carbon allowance proceeds?

A: There will be quarterly auctions of emissions allowances. As per legislation, all proceeds are to be used for initiatives that are reasonably likely to reduce, or support the reduction of, greenhouse gas emissions. Proceeds are projected to be \$1.8 billion in 2017–18 and \$1.4 billion annually, starting in 2018–19. Planned investments are subject to the availability of carbon allowance proceeds and evaluation by the Minister of the Environment and Climate Change. Priority investment areas will make it easier for Ontarians to make better choices that

Q: What is the Green Investment Fund?

A: As announced in the 2015 Fall Economic Outlook and Fiscal Review, Ontario's Green Investment Fund commits \$325 million to projects that will reduce greenhouse gas emissions, boost the economy and create jobs. These investments are part of the government's plan to fight climate change and secure a healthy, clean and prosperous low-carbon future.

Q: How will the Green Investment Fund be spent?

A: As announced in the 2015 Fall Economic Outlook and Fiscal Review, Ontario's Green Investment Fund commits \$325 million to projects that will reduce greenhouse gas emissions, boost the economy and create jobs. These investments are part of the government's plan to fight climate change and secure a healthy, clean and prosperous low-carbon future. Investments include:

Residential – Support energy retrofits in homes (including affordable housing):

- \$100 million to take advantage of the economic and job opportunities in clean technologies and to help homeowners reduce their energy bills and cut greenhouse gas emissions.
- \$82 million to encourage the replacement of older boilers and chillers with high-efficiency models and other complementary retrofits (e.g., windows, insulation and LED lighting) in large multi-unit (150+) social housing high-rise apartment buildings.
- \$10 million aimed at measures that will assist Ontario in realizing electric energy efficiencies in social housing single homes. The program will fund

selected retrofits that should demonstrate increased energy efficiency and reduced electricity consumption in single homes.

Business - Energy efficiency investments in small and medium-sized businesses and industry:

- \$74 million to provide solutions to improve the energy efficiency of large industrial emitters who face a number of knowledge, technical and financial barriers in reducing greenhouse gas emissions while ensuring that Ontario's industrial sector remains competitive in a low-carbon economy.
- \$25 million to support energy efficiency improvements by small and medium businesses to reduce greenhouse gas emissions in the manufacturing sector through investment in energy efficiency, emissions reduction, fuel-switching technology capital and third-party energy audit costs.
- \$1 million to the Sustainability CoLab Network, an organization that helps small and medium sized businesses set and achieve targets to reduce their environmental impact while enhancing their competitive advantage and stimulating the low-carbon economy.

First Nations - Greenhouse gas emissions reduction in aboriginal communities:

- \$8 million to demonstrate and deploy microgrid and energy storage technology and infrastructure, with a focus on reducing diesel use in First Nations communities.
- \$5 million to improve capacity for First nations to inform the development of and participate in economic opportunities associated with greenhouse gas mitigation activities, and develop adaptation plans.

Electric Vehicle Infrastructure

- \$20 million to create a network of fast-charging electric vehicle stations in cities, along highways and at workplaces, apartments, condominiums and public places across Ontario.

CHAPTER IV: PUBLIC SERVICES YOU CAN COUNT ON SECTION A – STRENGTHENING HEALTH CARE

Health

Q: How many new major projects are being supported by the new \$9 billion investment? Which projects are these?

A: The additional \$9 billion in capital grants will support the construction of a number of new hospital projects across the province over the next 10 years. These projects will include:

- Niagara Health System – New South Niagara Hospital Capital Project
- Windsor Regional Health Centre – New Greenfield
- Hamilton Health Services – Hamilton Redevelopment
- Trillium Health Partners – Broader Redevelopment
- Weeneebayko Area Health Authority – Replacement Hospital

MOHLTC continues to work with these hospitals as well as their LHINs to move forward with these projects. Further details of these and additional projects that make up the \$9 billion in capital grants will be available in the future.

Q: How much do the five newly approved major hospital projects cost?

A: The Ministry of Health is continuing to work with the five hospitals to finalize the scope of the projects. The capital grants to each hospital will be finalized once with scope and timelines are finalized. Further details of these projects will be available in the future.

Q: What is the status of each of the projects in the photos on page 10?

A: Each project's status is as follows:

- Mackenzie Vaughan Hospital – New Hospital
 - Construction underway (started in 2016, expected to be completed by 2020)
- Providence Care Hospital – Replacement Hospital
 - Construction completed in 2016
- St Joseph's Health Care – Parkwood/St. Thomas Mental Health

- Construction completed in 2014
- Atikokan General Hospital – Phase 1 Redevelopment
 - Construction underway
- Centre for Addiction and Mental Health- Phase 1C
 - Procurement Completed

Q: What is the purpose of hospital planning grants?

A: Hospital planning grants support detailed upfront planning work to address emerging needs of the health care system and ensure that proposals meet the needs of local communities in Ontario.

In the 2017 Budget, Ontario is committing to a new \$2.5M planning grant for the Centre for Addiction and Mental Health. This planning grant will support the hospital to move forward with the Phase 1D redevelopment project which will focus on providing complex mental illness forensic services.

Q: What is the government doing to support community health infrastructure?

A: The government continues to support community health infrastructure to shift care from hospital to community settings. This includes a dedicated Community Infrastructure Renewal Fund to help community organizations with the cost of maintenance and deferred capital repairs.

Alcohol Policy Branch

Alcohol Modernization

Q. Why is there no mention of beverage alcohol modernization in the 2017 Budget?

A. The Premier's Advisory Council on Government Assets was appointed in 2014 and asked to find ways to improve customer service, increase efficiencies and unlock the full value of the Liquor Control Board of Ontario (LCBO) and other aspects of Ontario's alcohol retail landscape.

In 2015 and 2016, the Council made a series of recommendations on changes to beverage alcohol retail and distribution. Now that the government has implemented the Council's recommendations, consumers can continue to enjoy the benefits of an efficient and customer-oriented beverage alcohol system.

Q. What's the status of the Alcohol Strategy that was announced in the 2016 Budget?

A. Selling alcohol is a public trust that the government takes very seriously. The Ontario government remains committed to policies that support the safe consumption and socially responsible sale of alcohol.

Questions about the Alcohol Strategy can be referred to the Ministry of Health and Long-Term Care.

Summary of New Investments

Q: In terms of providing health care services to Ontarian in this budget, what's new?

A: The government is investing an additional \$7 billion in health care over the next three years, compared to the 2016 Budget plan, to reduce wait times, provide access to care and to enhance the patient experience. With these new investments, growth in health spending will now average 3.3 per cent over the medium term.

This is new funding in the 2017 Budget. \$7 billion represents the three-year increase over the existing funding increase provided in the 2016 Budget.

Internal – How is the \$7 billion Funding Increase Calculated?

The additional \$7 billion is the three-year total change between the 2016 Budget and 2017 Budget. This amount includes all in-year 2016-17 funding decisions.

(\$B)	2016-17	2017-18	2018-19	2019-20	3 Year total
2016 Budget – medium term outlook (p.275)	51.8	52.8	53.7	54.7*	
2017 Budget – medium term outlook (TBC 6b p.19)	52.2**	53.8	56.3	58.1	
Total change 2016 Budget to 2017 Budget		1.0	2.6	3.4	7.0***

* 2016-17 PRRT approved 4 year expense outlook. Because the *Budget* medium term outlook only includes 3 fiscal years this number was not published in the 2016 Budget.

** Interim includes all in-year funding decisions: \$140M for hospitals, \$106M for the drug program, \$95M for stem cell transplants, \$30M First Nations Health Action Plan as well as other adjustments.

*** Without rounding total expense growth is \$6.903B.

Internal – How is the \$11.5 billion Funding Increase Calculated [from Coms material]?

\$11.5 billion is the total cumulative growth in the next three years over the 2016-17 Interim forecast. This calculation adds the growth over the 2016-17 Interim forecast in each year from 2017-18 to 2019-20. All 2016-17 in-year funding decisions are in the plan.

(\$B)	2016-17	2017-18	2018-19	2019-20	3 Year total
2016 Budget – medium term outlook (p.275)	51.8	52.8	53.7	54.7*	
2017 Budget – medium term outlook (TBC 6b p.19)	52.2**	53.8	56.3	58.1	
YoY growth – 2016-17 Interim to 2017-18		1.6	1.6	1.6	
Additional growth starting in 2018-19		-	2.5	2.5	
Additional growth starting in 2019-20		-	-	1.8	
Total cumulative change over 2016 Interim forecast		1.6	4.0	5.9	11.5***

Numbers may not add due to rounding.

* 2016-17 PRRT approved 4 year expense outlook. Because the Budget medium term outlook only includes 3 fiscal years this number was not published in the 2016 Budget.

** Interim includes all in-year funding decisions: \$140M for hospitals, \$106M for the drug program, \$95M for stem cell transplants, \$30M First Nations Health Action Plan as well as other adjustments.

*** Without rounding total expense growth is \$11.495B.

Q: What is additional funding is being provided to keep wait times low? Is this in addition to the \$7 billion investment in health care?

A: The 2017 Budget includes \$1.3 billion in new funding for wait times over three years. The additional funding will reduce wait times, including \$890 million for key surgical and other priority procedures; \$254 million to improve specialist access, including new digital solutions to streamline consults and eReferrals; \$85 million in new home and community care services; and \$74 million to provide more timely mental health services.

The \$1.3 billion wait time funding is part of the overall \$7 billion investment in health care. These are new investments in the 2017 Budget that support faster access to care across a variety of programs services such as hospital, home and community care and mental health.

Increasing Access

Increasing Operating Funding for All Public Hospitals

Q: What is in the budget for hospitals? What is the government doing to address overcrowding and the reduction of wait times?

A: The Province is investing an additional \$518 million in hospital services. This represents a three per cent increase for the sector and a minimum two per cent increase for each hospital.

This is on top of the one per cent increase for all hospitals announced in the 2016 Budget and an additional one per cent increase announced in the fall of 2016.

Ongoing investments will help hospitals across Ontario expand access to complex clinical services, keep wait times low, maintain access to elective surgery and ensure that important health services are maintained.

Q: What is meant by evidence-based funding for hospital spending? What are the outcomes to be achieved through the expansion of this funding model?

A: Historically, hospitals have received global or base funding (an across-the-board increase each year). In April 2012, Ontario initiated Health System Funding Reform, moving to a funding model that reflects the needs of the patients served by each hospital and its surrounding community. This model compensates health care organizations based on how many patients they look after, the services they deliver, the evidence-based quality of those services, and the specific needs of the broader population they serve.

Health System Funding Reform is comprised of two funding models: the Health-Based Allocation Model, an evidence-based funding formula that uses population and clinical information to inform allocations; and Quality-Based Procedures, which allocate funding for specific procedures based on a "price x volume" methodology. This involves providing evidence-based allocations to targeted clinical groups and structuring prices to incentivize and adequately reimburse providers for delivering high-quality care.

Together these two models ensure that funding is allocated based on the number of patients and the procedures that are the most successful and efficient at delivering high-quality care. The main benefits of Health System Funding Reform include:

- Patient-centred care, focusing on individuals and ensuring that funding is tied more directly to the quality care that is needed and will be provided.
- Smarter use of limited resources, driving a sustainable health care system based on quality.

Enhancing Interprofessional Primary Care Teams

Q: What are interprofessional primary care teams?

A: Interprofessional primary care organizations deliver comprehensive primary care services and programs through a team of health care professionals, including physicians, nurse practitioners, registered nurses, physician assistants, dietitians, pharmacists, mental health workers, social workers, psychologists, physiotherapists, chiropractors and other professionals. Programs are designed and delivered around the holistic needs of patients, ranging from programs to help people manage their chronic diseases to services that help with life challenges that negatively impact health.

Q: Who will benefit from the new \$145 million investment? Will compensation for health-care professionals increase and if so, by how much?

A: To further support interprofessional care teams and improve the important services they provide, the government is continuing its commitment by investing an additional \$145 million over the next three years to effectively recruit and retain nurses, nurse practitioners, dietitians, social workers, pharmacists, reception staff and other care providers who provide valuable services alongside family doctors in these teams. This is in addition to the \$85 million in investments in interprofessional teams announced in the 2016 Budget.

The extent of compensation increase would vary by profession and by employee, and would be based on employer discretion.

Expanding Access to Safe Abortion

Q: How is Ontario expanding access to safe abortions?

A: Ontario will expand access to health care options for women by publicly funding the new abortion pill through the Ontario Public Drug program.

On January 10, 2017, Mifegymiso (mifepristone /misoprostol) was approved for use in Canada to achieve a medical abortion in early pregnancy (gestational age up to 49 days). The medication induces a miscarriage-like process and no surgical intervention is required.

The Ministry of Health and Long-Term care will provide further details as program implementation details are known.

Acting on Ontario's Opioid Strategy

Q: What is the Province doing to address the over-use of opioids?

- A:** The government has taken steps both to improve pain management in Ontario, and to prevent and treat opioid addiction, misuse and overdose.
- Since 2016, under Ontario's Opioid Strategy, over 28,000 free over-the-counter anti-overdose naloxone kits have been distributed by more than 1,000 pharmacies and at 40 public health units and community organizations across the province. New, easier-to-use nasal spray kits are now being distributed and their wider availability is being explored.
 - In 2017, the government committed \$17 million to enhance or develop chronic pain programs across the province, and in 2018 an additional program is planned for Health Sciences North to serve Sudbury and area.
 - Since 2016, Ontarians have had greater access to Suboxone as a first-line treatment for opioid substitution therapy. Four planned, community-supported and operated supervised injection sites in Toronto and Ottawa, which allow people to inject their own personally acquired drugs, will assist in reducing harm and saving lives.

Expanding Access to Home and Community Care

Q: What is a bundled care model? How does it work?

- A:** Bundled care is designed to promote greater integration in health care delivery, drive high-quality, efficient care and improved health outcomes for patients.

It bundles funding across providers for specific episodes of care, to help people transition more smoothly out of hospital and into their homes. Bundled care provides an opportunity to build capacity in the system for implementation of the *Patients First Act*, through approaches that allow care, funding, and data systems to be integrated at the sub-region level. These teams have collectively supported more than 2,400 patients with a more seamless journey from hospital to home.

Early results show that patients are transitioning more smoothly out of hospital and into their homes; have shorter lengths of stay in hospital, have fewer emergency department visits, and are less likely to be readmitted to hospital. Patients are also reporting positive experience associated with the model.

Faster Access to Mental Health and Addiction Services

Q: How is the government addressing the need for faster access to community services to help people with mental health issues or addictions?

A: As well as the more than \$3.7 billion that Ontario already invests annually in mental health and addictions services for children, youth and adults across the province, the government is investing an additional \$140 million over three years to provide faster access to new services across Ontario to help thousands more people get the support they need, including:

- \$73 million over three years, to help thousands of people living with mood disorders such as anxiety and depression learn to improve their mental health and be more successful in their daily lives, through evidence-based structured psychotherapy online or in person through individual and group sessions;
- \$45 million over three years for up to 1,150 additional supportive housing units across Ontario to help people living with mental illness and addictions, especially those who are homeless or at risk of becoming homeless, with both secure, affordable housing and services such as counselling;
- \$2.5 million over three years to support up to nine one-stop community and social service hubs for youths ages 12 to 25 with access to mental health, addictions and other services; and
- \$21 million for other mental health and addictions priorities including those funded by MCSS.

The Province is also enhancing mental health and addictions services across the education, social services and justice systems. For example, the government has expanded mental health supports for more than 50,000 children and youth through hiring more front-line staff in schools, communities and courts.

- Ontario is investing an additional \$49 million over the next three years in a well-being strategy to improve students' cognitive, social and physical development.
- The Province has established School Mental Health ASSIST to help school boards build capacity to support student mental health and well-being.
- Ontario is investing \$51 million over three years to improve mental health and addictions services for people in correctional facilities, from entry through to reintegration into the community.

To improve equitable access to mental health and addictions services for Indigenous people in Ontario, the government is also providing enhanced support and services

as part of the First Nations Health Action Plan (life promotion and crisis support including enhanced telemental health services and more child and youth mental health workers in northern schools) and The Journey Together: Ontario's Commitment to Reconciliation with Indigenous Peoples (supporting up to six new or expanded Indigenous Mental Health and Addictions Healing and Treatment Centres and expanded trauma-informed, culturally specific services to help stop intergenerational trauma by addressing the mental health and addictions needs of Indigenous people).

Enhancing the Patient Experience

Supporting Seniors in Their Communities

Q: What is the government doing to help Ontarians affected by dementia?

A: An estimated 214,000 Ontarians now live with dementia. That number is expected to rise to 266,000 by 2022 and to over 430,000 by 2038. The responsibility of caring for someone living with dementia can take an enormous physical, emotional and financial toll on care partners — family members, friends and neighbours. Nearly half of people living with Alzheimer's or other dementias have caregivers who are distressed.

Ontario's new Dementia Strategy will provide over \$100 million over three years to support people with dementia and those who care for them through better coordinated and enhanced services. This will include funding to expand province-wide access to community programs and other investments to enhance access to care, information and support from as early as possible once a diagnosis is made.

Expanding the Northern Health Travel Program

Q: What is the government doing to help patients in northern Ontario access health care services not available close to their home?

A: Starting in 2017-18, the government is increasing the amount of assistance available to help patients in northern Ontario defray some of the travel costs to access specialized or facility-based medical services that are unavailable within a 100-kilometre (km) radius of their home community.

- The increased funding can improve health service access and equity, particularly for low-income patients, by increasing the payment for patient accommodation per trip.

- A \$100 accommodation allowance is currently paid if one-way travel to the nearest specialist/health care facility is at least 200 km from the resident's home.

Integrating LHINs

Q: How much will be saved by amalgamating Local Health Integration Networks and Community Care Access Centres? How will the savings be used?

A: As part of better integrating health care services across the province, the amalgamation of the LHINs and the Community Care Access Centres (CCACs) is expected to generate annual ongoing operational savings of about \$10.7 million or about eight per cent of previous Local Health Integration Network (LHIN) and CCAC management costs. Savings will be pro-rated in the first-year, 2017, based on the timing of the transition.

The planned reduction will not have a negative impact on patient care or delivery of home care services. Savings will be reinvested to enhance the provisions of direct patient care in the LHINs.

Providing Easy-to-Access Health Information

Q: What is Ontario doing to improve eHealth and to modernize access to quality health care online or digitally?

A: Ontario's digital health investments to date have appropriately focused on health care organizations and clinicians, and have laid the foundation for the system in place today. In 2017, following up on Ed Clark's digital health recommendations of fall 2016, Ontario will release a 10-point action plan for Digital Health in Ontario, investing \$15 million to open up new ways for patients and families to access health information and services digitally.

In 2017, the government will launch Ontario.ca/Health — a user-focused, mobile-friendly source for information about Ontario health services to help people navigate the Province's health care system and make informed choices for their health.

As part of Ontario's \$1.3 billion additional investment over three years to reduce wait times, the government has committed \$245 million to improve access to specialized care. This includes a plan to expand the web-based eConsult service across the province in 2017–18 to enable patients to access specialists' advice, sometimes making an in-person consultation unneeded.

In 2017-18 too, the government will explore making an online eReferral system available to connect patients with specialists and other health care services

across Ontario. Also in 2017–18, the Province plans to invest \$1 million to develop a proof-of-concept digital registration and authentication service to allow parents and/or guardians to securely and easily view their child's yellow immunization card electronically, using their existing banking credentials.

The government continues to finalize a number of eHealth projects which have established the foundations of an Electronic Health Record (EHR) for Ontarians, including a storage system for most diagnostic images (e.g., x-rays, ultrasounds) in the province, the Ontario Laboratory Information System which holds lab test records, and Panorama, which maintains immunization records.

The government will be reporting on further digital health developments in the months to come.

Protecting Health Care for Tomorrow

Health Innovation

Q: What is the government doing to support children's and youths' health?

A: Starting in January 2018, the government is launching OHIP+: Children and Youth Pharmacare, which will cover the costs of all prescription medications funded under the Ontario Drug Benefit Program, for all Ontario children and youth age 24 and under, regardless of family income, and with no deductible and no co-payment.

Ontario supports children's and youths' health in numerous ways. The government is creating a provincial prenatal screening program. Ontario is investing \$26 million over four years to increase awareness and prevention of Fetal Alcohol Spectrum Disorder (FASD) and expand support for those affected by the disorder. Ontario is supporting six initiatives such as additional FASD workers and one-stop access to information/training resources, to reduce prevalence of the disorder, increase coordination of services, improve quality of life for those with FASD, and enhance support for families and caregivers.

The government already provides supports for premature babies and their families through investment in Ontario's Human Donor Milk Bank, and plans a new program starting in 2017 to improve access to breast pumps for mothers of premature babies.

The Province is investing an additional \$49 million over the next three years in developing programs to improve students' cognitive, social and physical development through its well-being strategy.

A revised health and physical education curriculum is also helping students develop skills and knowledge to enable them to enjoy being active and healthy

throughout their lives. The government has also established School Mental Health ASSIST, which helps school boards build capacity to support student mental health and well-being.

A new health network for children, The Kids Health Alliance at Sick Kids Hospital will be established to improve emergency department care for children across the province.

To further encourage children's physical activity and healthy eating, Ontario's Healthy Kids Ministers' Working Group continues to build on the Healthy Kids Strategy. The government is also exploring new health information and promotion initiatives, while continuing to implement existing projects, such as the Healthy Kids Community Challenge in 45 communities across Ontario.

General Health

Q: What is the status of negotiations with the Ontario Medical Association?

A: In February 2017, the Premier and Minister Hoskins announced a new negotiating team to act on behalf of the government in renewed negotiations with the Ontario Medical Association.

The first order of business for discussions has been to negotiate a binding interest arbitration process.

CHAPTER IV: PUBLIC SERVICES YOU CAN COUNT ON SECTION B – INVESTING IN EDUCATION

Q: What new investments in postsecondary education infrastructure will the province be making this year?

A: In January 2017, the province invited universities to develop innovative proposals for the creation of two new university sites in Brampton and Milton. In March, the province announced it received proposals from Wilfrid Laurier University, in partnership with Conestoga College, for the expansion in Milton, and a proposal from Ryerson University, in partnership with Sheridan College, for the expansion in Brampton. Further details related to these proposals will be communicated this spring.

CHAPTER IV: PUBLIC SERVICES YOU CAN COUNT ON SECTION C - BUILDING TRANSIT AND TRANSPORTATION

Moving Ontario Forward with the Trillium Trust

Trillium Trust

Q: Are investments funded from the Trillium Trust and GGRA included in the 13-year infrastructure expenditures totals? How are these reflected in your infrastructure table in Chapter 6 of the Document?

A: Investments from the Trillium Trust and GGRA are included as part of the 13-year infrastructure expenditures totals. These investments are represented in their corresponding sectors in the Infrastructure Expenditures Table in chapter 6 of the Document. For example, investments in Regional Express Rail funded from the GGRA are represented as part of the Transit sector in the Infrastructure Expenditures Table.

Q: Most of the funding in the Trillium Trust has not been spent. Has the government used it to reduce its deficit?

A: Following the implementation of the Moving Ontario Forward plan in 2014-15, spending in the near term is expected to be lower than projected revenues, but this is temporary.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects will be focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending will ramp up significantly once this work is completed. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

Q: Isn't the government just selling assets to improve the path to balance?

A: The government has restored balance through targeted, measured and fiscally responsible decisions to manage growth in program spending and foster job creation and economic growth. [Ch. 1 Pg. 4]

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

Q: If the Trillium Trust has been credited with \$5.3 billion, why is the government projecting to only draw down less than \$1 billion over 2016-17 and 2017-18?

A: Like most large infrastructure investments, initial spending on projects is focused on planning, design, property acquisition and other activities to get projects construction-ready.

As this preliminary work is completed and construction activity gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure.

Q: If the Province raised about \$2 billion in the secondary offering of Hydro One shares, why was only \$538 million credited to the Trillium Trust?

A: The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province is also using proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFEC).

Through the broadening of Hydro One ownership, the Province remains on track to generate \$4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and \$5 billion to reduce debt.

Q: Why hasn't the government credited the Trillium Trust with the net revenue gains associated with Hydro One shares purchased by OPG and Hydro One shares purchased by trusts of the Power Workers' Union (PWU) and Society of Energy Professionals (SEP) through Provincial loans?

A: The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from these share sales in the future, including to ensure that over time the full amount of those gains will be credited to the Trust.

Through the broadening of Hydro One ownership, the Province remains on track to generate \$4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward.

Q: The government previously credited the Trillium Trust with a non-cash deferred tax benefit resulting from the Hydro One IPO. How can the government use a non-cash amount to invest in infrastructure?

A: The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust.

The deferred tax benefit provided an up-front revenue gain to the Province through consolidation of the Province's portion of Hydro One's net income in the Public Accounts. This also increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales for a given amount of gross sale proceeds. This does not affect the total cash the Province receives.

By dedicating to the Trillium Trust the net revenue gains to the Province from the deferred tax benefit, the government is ensuring that the full benefit of the value created from broadening Hydro One ownership is dedicated to the Trust to support investments in transit and infrastructure.

Q: How much of the Moving Ontario Forward dedicated funds have been allocated, and how much remains unallocated?

Inside GTHA funding of about \$16 billion has been allocated, including \$13.5 billion for GO Regional Express Rail, \$1.4 billion for Hurontario Light Rail Transit, and \$1 billion for Hamilton Light Rail Transit.

The majority of the dedicated funds set aside for outside the GTHA has been allocated to priority infrastructure projects such as: the Ring of Fire, the expanded Ontario Community Infrastructure Fund and Connecting Links program, the Small Communities Fund, highway expansion projects, transit projects including Stage 2 of Ottawa Light Rail Transit and GO service extension and expansion along the Kitchener and Lakeshore West rail corridors, and Clean Water and Wastewater Fund projects, the Natural Gas Grant Program, Ottawa River Action Plan, and the Maley Drive Extension in Sudbury.

[Not public – spending of about \$12 billion has been allocated to outside GTHA initiatives, leaving about \$3 billion for other projects pending future approvals.]

Q: What is an integrated RER/SmartTrack concept?

A: The Province had been working closely with the City of Toronto to provide input into, and ensure coordination between, the City's SmartTrack plan and how it would fit with the implementation of RER.

In fall 2016, the Province and the City reached an agreement-in-principle to incorporate the SmartTrack plan into the design of RER, including the construction of six new rail stations along GO rail corridors within the City, and a western extension of the Eglinton Crosstown Light Rail Transit to the Pearson International Airport.

Q: There is a lot of local opposition to Hamilton LRT project. Will the Province proceed with construction?

A: The Province will continue to work with the City of Hamilton, as we proceed with the construction of a dedicated light rail transit line between McMaster University and the Queenston traffic circle. A request for proposals is expected to be released later in 2017.

In addition to the LRT, we are also moving forward with the planning for a proposed 16-kilometre bus rapid transit line that would connect the Hamilton waterfront to Hamilton International Airport.

Q: Why does Toronto get so much more gas tax funding than other cities?

A: Gas tax allocations are calculated through a formula based 70 per cent on ridership and 30 per cent on population. Toronto's allocation of gas tax funding reflects its relative share of transit ridership and population, amongst all eligible municipalities.

Broadening Hydro One Ownership

Q: How is the Province doing on meeting its commitment to generate \$4 billion in net revenue gains from broadening Hydro One ownership?

A: In August 2016, the government credited the Trillium Trust with about \$3.2 billion from the sale of Hydro One shares in 2015.

In March 2017, the government credited the Trillium Trust with an additional \$538 million in net revenue gains from the sale of Hydro One shares in 2016.

The government has thus far credited the Trillium Trust with about \$3.7 billion from the broadening of Hydro One ownership to support investments in public transit, transportation and other priority infrastructure under Moving Ontario Forward.

Net revenue gains from future offerings will continue to be dedicated to the Trillium Trust.

Q: Has the Province made any progress on its commitment to using proceeds from broadening Hydro One ownership to pay down a targeted \$5 billion in debt?

A: The government is making progress on its commitment to using proceeds from broadening ownership in Hydro One to pay down a targeted \$5 billion in debt.

The commitment includes using the pre-IPO special dividend paid by Hydro One to the Province and using proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).

The Province has now paid the OEFC approximately \$3.2 billion related to the book value of Hydro One shares sold in 2015 and 2016 and the pre-IPO special dividend.

As the government continues to broaden Hydro One ownership, the Province will direct additional proceeds to pay down debt and other payables with OEFC.

Q: Why did OPG purchase Hydro One shares in the secondary offering? Isn't this like selling shares to yourself since the Province is the sole shareholder of OPG?

A: As part of the secondary offering in April 2016, OPG purchased 9 million shares. OPG purchased these shares to satisfy obligations under collective agreements negotiated in 2015 with the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP).

Under these agreements, on-going and then existing OPG employees (at the time of the 2015 collective agreements) are eligible to receive annually common shares of Hydro One for up to 15 years, starting in the third year (2018) of the respective agreements.

OPG independently made the decision to purchase the shares to mitigate the risk of future price increases in meeting its future share delivery obligations. OPG does not have any agreement, arrangement or understanding with the Province with respect to Hydro One common shares or the voting of those shares.

Q: Is there a timeline for when the Province will proceed with subsequent offerings?

A: The Province will reduce its stake over time, while remaining the largest shareholder. By law, the Province cannot sell shares such that it would own less than 40 per cent of the Hydro One voting securities.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: Asset sales provide upfront gains that the government will reinvest into public infrastructure. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

Through the broadening of Hydro One ownership, the Province remains on track to generate \$4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and \$5 billion to reduce debt.

The Province now holds approximately 70 per cent of Hydro One common shares following the initial public offering in November 2015 and a secondary offering in April 2016. The Province will remain the largest shareholder, while reducing its stake to no less than 40 per cent over time. The Province will still continue to benefit from Hydro One as an on-going revenue generating asset, including any future growth, with the Province recognizing its proportionate ownership share.

Merging Hydro One Brampton

Q: If the sale of Hydro One Brampton is now complete, why hasn't the Province communicated how much was raised from the sale? Shouldn't the Province know how much it received?

A: While the sale was completed on February 28, 2017, this sale is subject to a post-closing adjustment period in which a detailed accounting review of Hydro One Brampton's financials will take place. The government will be able to provide more details once this review has taken place.

Q: If the sale of Hydro One Brampton is now complete, why hasn't the Province communicated how much will be dedicated to the Trillium Trust from the sale?

A: While the sale was completed on February 28, 2017, this sale is subject to a post-closing adjustment period in which a detailed accounting review of Hydro One Brampton's financials will take place. The government will be able to move forward with a regulation to dedicate net revenue gains to the Trillium Trust once this period is past and the review has taken place.

Q: The government has said that the net proceeds from the sale of Hydro One Brampton will be credited to the Trillium Trust, but what about ratepayers? Will any benefit go to the Ontario Electricity Financial Corporation (OEFC)?

A: The Province is committed to providing OEFC with a financial benefit as provided under Section 50.3 from the sale of Hydro One Brampton.

Under section 50.3 of the *Electricity Act, 1998*, an amount equal to proceeds net of transaction costs and other prescribed deductions are to be paid to OEFC.

Q: Will the sale of Hydro One Brampton result in higher electricity prices for ratepayers?

A: The sale of Hydro One Brampton represents a major step forward in local distribution company (LDC) consolidation and will allow for more efficient services and continued provision of safe, reliable electricity.

The ability to set rates will continue to be the responsibility of the independent regulator, the Ontario Energy Board (OEB).

An application to support the merger was submitted to the OEB on April 15, 2016. On December 8, 2016, the OEB issued a decision an order approving the merger.

Q: Why was the Province involved in the sale of Hydro One Brampton – isn't Hydro One Brampton a subsidiary of Hydro One?

A: Prior to August 31, 2015, Hydro One Brampton was a subsidiary of Hydro One. To facilitate the merger of Hydro One Brampton with Alectra Utilities (consisting of Enersource, Horizon Utilities, and PowerStream), on August 31, 2015, Hydro One declared a dividend in kind to the Province of all the issued and outstanding common shares of Hydro One Brampton Networks Inc.

This meant that Hydro One Brampton was no longer a subsidiary of Hydro One. After August 31, 2015 and before the sale to Alectra Utilities, Hydro One Brampton became a wholly Provincially-owned subsidiary of Brampton Distribution Holdco Inc.

If pushed:

The dividend declaration was only an organizational restructuring. It did not have fiscal impacts as the Province continued to be the sole owner of Hydro One Brampton up until the sale on February 28, 2017.

Realizing Value from Ontario's Real Estate Assets

Q: The 2017 Document states that Ontario Power Generation (OPG) has reached an agreement for the sale of its head office properties – does this mean that the sale has closed?

A: Yes, OPG has closed the sale of its head office properties. The sale closed on April 5, 2017.

The transaction is estimated to result in net proceeds of over \$200 million.

Under the Trillium Trust Act, a Treasury Board regulation will designate the net proceeds to be credited to the Trillium Trust from the transaction.

Q: If the sale of the Ontario Power Generation (OPG) head office properties is now complete, why hasn't the Province communicated how much was raised from the sale? Shouldn't the Province know how much it received?

A: The transaction is estimated to result in net proceeds of over \$200 million, which will be credited to the Trillium Trust. The Province is working with OPG to assess various elements of the transaction to be able to calculate the net proceeds that would be dedicated to the Trillium Trust under the Trillium Trust Act. The government will be able to provide more details once this review has taken place.

Q: The 2017 Document states that the Province is also moving forward with its plans to unlock value from other real estate assets, including the Seaton and Lakeview lands? What exactly does this mean? Is the Province looking at other real estate assets?

A: The Province is moving forward with the sale of the Seaton Lands. The lands will be marketed to prospective purchasers to support a new urban development in the City of Pickering. By selling approximately 830 acres of employment lands and 370 acres of residential and mixed-use lands, upon completion Seaton will be a sustainable community that will be home to 61,000 people and support 30,500 jobs.

The former Lakeview generating station lands in south Mississauga continues to be reviewed under a longer-term revitalization plan for the property and adjacent lands. The Province is focused on realizing the potential of the Lakeview lands, with an opportunity to create a new and sustainable, mixed-use community along Mississauga's eastern waterfront, with arts and culture districts, housing, employment, and retail and recreational uses.

The government identified the LCBO head office lands, OPG's head office building, and the Seaton and Lakeview lands as part of its asset optimization strategy in 2014-15. The government has not included any other real estate assets in the asset optimization initiative. The Province is focused on realizing the

potential from these real estate assets and is committed to dedicating the net revenue gains generated from these sales to the Trillium Trust.

Asset Optimization

Q: Isn't the government just selling assets to improve the path to balance?

A: The government has restored balance through targeted, measures and fiscally responsible decisions to manage growth in program spending and foster job creation and economic growth. [Ch. 1 Pg. 4]

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

Q: What is the government doing with the proceeds of its asset sales?

A: The total amount credited to the Trillium Trust so far is \$5.3 billion. The government has begun drawing down funds from the Trillium Trust in 2016-17.

Based on planned expenditures, the Trillium Trust is projected to be drawn down by about \$250 million in 2016-17 and about \$400 million in 2017-18 to help support initiatives such as GO Transit's Regional Express Rail plan, the Hurontario light rail transit project, and the Ontario Community Infrastructure Fund, which provides funding to small, rural and northern communities for critical infrastructure projects. [Ch. 4C Pg. 14]

CHAPTER IV: PUBLIC SERVICES YOU CAN COUNT ON SECTION D - BUILDING INCLUSIVE COMMUNITIES AND IMPROVING THE JUSTICE SYSTEM

Income Security Review

Q: Why is the government reviewing social assistance programs again? What is the purpose of this review?

A: In the *2015 Budget*, Ontario introduced a consultation on social assistance rate restructuring. Through ongoing discussions, a clear consensus emerged on the need to move policy considerations beyond social assistance rates to include aspects of the broader income security system.

That is why the government is reviewing how the income security system, including social assistance programs, can better reflect Ontarians' needs. This work is being guided by the Income Security Reform Working Group, as well as separate working groups with First Nations and urban Indigenous partners.

Work is underway on the development of a multi-year roadmap for an income security system that is based on equity, adequacy, sustainability and simplicity.

Q: The Budget mentions that a report with recommendations is expected by the end of 2017. When exactly will this report be completed, and what will the government do with it?

A: The report is anticipated to be brought forward before the end of 2017.

The recommendations in the report, the input from the income security and Indigenous working groups, and the work to test a Basic Income Pilot will inform the development of a plan for social assistance reform within the broader income security context.

Social Assistance

Q: Who will be impacted by the changes to social assistance announced in this budget?

A: The rate increases and asset limit changes will impact all recipients of social assistance.

Q: Why are you increasing social assistance rates by only 2%?

A: With the proposed 2% increase announced in this budget, rates for singles without children receiving Ontario Works – recipients with the lowest rates – will have increased by 19%, and about 6.5% for other recipients since 2012. In addition to social assistance benefits, lone parents and other social assistance recipients with children have experienced a significant increase in incomes as a result of substantial increases in federal and provincial children's benefits.

Q: How much are you increasing asset limits?

A: The government will be increasing limits on cash and other liquid assets in both Ontario Works and the Ontario Disability Support Program (ODSP).

For Ontario Works, asset limits will be increased from \$2,500 to \$10,000 for singles, and from \$5,000 to \$15,000 for couples.

For ODSP, asset limits will be increased from \$5,000 to \$40,000 for singles and from \$7,500 to \$50,000 for couples.

Q: When will the 2% rate increase be implemented?

A: The proposed rate increase would be effective on September 30 and October 1, 2017 for Ontario Disability Support Program (ODSP) and Ontario Works recipients, respectively. This timing is consistent with previous rate increases over the past several years.

Q: When will asset limit changes be implemented?

A: Increases to asset limits will take effect in January 2018.

Q: Will municipalities share the cost of the social assistance rate increase in 2017?

A: No, municipalities will not cost-share the increase to social assistance rates. ODSP was fully uploaded to the Province in 2011 and Ontario Works will be fully uploaded in January 2018.

Q: What is the Remote Community Allowance and how much is it?

A: The Remote Communities Allowance is a mandatory amount paid, in addition to base social assistance rates, to recipients in communities north of the 50th parallel without year round road access. The RCA for a single recipient is currently \$217 per month. That amount will increase to \$267 per month starting in October 2017.

Prepared by: Samantha DiBellonia (7-0138) / Monika Karski (7-0144) / Garima Talwar (7-0130)

Branch: Income Security Policy Branch

Social and Justice

Q: What is the status of correctional facility projects in Ontario?

A: The Ministry has completed 4 Alternative Financing and Procurement model projects in recent years, which includes:

- OPP Modernization Phase 1 (18 new OPP detachments, regional headquarters and forensic identification services in 16 communities across Ontario);
- Toronto South Detention Centre (1,650 inmate capacity);
- South West Detention Centre (315 bed capacity); and
- The Forensic Service and Coroners Complex (capacity for over 2,500 autopsies and over 15,000 forensic science cases per year).

Projects underway include:

- The first phase (32 beds) of dedicated mental health units for female adult inmates at the site of the Roy McMurtry Youth centre by 2018 as part of a larger 192-bed adult female detention centre to be completed by 2022.
- The second phase of modernizing OPP facilities across the province is underway, with construction of nine new OPP detachments.

Q: What is the status of courthouse projects in Ontario?

A: To date, the government has completed 5 courthouses using the Alternative Financing and Procurement model. These include:

- Durham Region Courthouse (completed in 2009)
- Waterloo Region Courthouse (completed in 2013)
- Quinte Consolidated Courthouse (completed 2013)
- Thunder Bay Consolidated Courthouse (completed 2014)
- Elgin Country Courthouse (completed 2014)

New Toronto Courthouse was announced in the 2015-16 Budget. The courthouse will consolidate a number of Ontario Court of Justice and Superior Court of Justice operations into one location. This project is currently in the procurement stage.

CHAPTER V: WORKING WITH PARTNERS

Introduction: Continued Collaboration with Our Partners

Partnerships with the federal government

Q: Now that the federal government is helping pay for GO RER, will the Province be investing in other priority projects? Which ones?

A: Ontario welcomes federal investments in RER and other priority projects across the province. The Province is developing a long-term infrastructure plan (LTIP) as part of the *Infrastructure for Jobs and Prosperity Act* that will identify infrastructure priorities over the long-term.

Q: The current federal government has committed to significant new infrastructure funding. How much is Ontario getting? How much will Ontario cost-match?

A: Ontario will be entering into bilateral negotiations with the federal government to discuss the details of the federal government's proposed infrastructure investments in the 2017 Budget, including how much of the funding will be allocated to Ontario.

The 2017 Federal Budget included some details about federal cost-sharing requirements for Ontario:

- Up to 40 per cent federal funding for most projects undertaken with municipalities;
- Up to 50 per cent federal funding for most projects with provincial partners; and,
- Up to 75 per cent federal funding for projects with Indigenous and territorial partners.

[Not Public. Intel has indicated that, subject to negotiation and full participation in merit-based funds, Ontario could receive approximately \$20 billion in funding (not counting the Infrastructure Bank).

Q: Can the Province afford to match new federal funding requirements? What are the next steps?

A: The Province could potentially leverage some funding from within its fiscal plan, including funding from the unallocated funding from the Building Canada Fund and Moving Ontario Forward, to partially meet the potential cost matching requirement.

In preparation for upcoming bi-lateral negotiations with the federal government the Province will:

- Continue to advocate for favorable incrementally conditions for new federal funding (e.g., projects can be in-plan as long as construction has not started);
- Advocate for provincial control over project selection and flexibility to profile Ontario's guaranteed allocation towards priority infrastructure initiatives (e.g. allocate a portion of Public Transit funding towards Green Infrastructure projects).
- Determine the appropriate provincial contribution, if any, to new municipal projects receiving federal funding.

Q: You said the need for collaboration within the federation has never been greater. How will Ontario work with its partners to tackle those challenges?

A: Ontario has embraced a collaborative approach with the federal government to address the increasingly complex challenges facing the federation — challenges such as uncertain global economic growth, the perils of climate change and demographic changes.

Ontario believes that the best results for Canadians come from working together with all levels of government — driven by shared values and a shared sense of responsibility to address the needs of all Canadians equally.

A collaborative approach to federalism is yielding positive results.

- For example, with strong leadership from Ontario, a historic agreement among federal, provincial and territorial governments was reached last year to enhance the Canada Pension Plan in a way that will significantly improve retirement security for future generations.
- More recently, this month Minister Charles Sousa met with Federal Minister of Finance Bill Morneau and Mayor of Toronto John Tory to discuss new ways to collaborate to address rising housing and rent costs, and share information across jurisdictions.
- In addition to the Province taking action on these issues, ongoing collaboration with the federal government and City of Toronto is key to improving housing affordability over the long term.

As the Province is making the investments necessary to help Ontarians adapt and excel in the changing global economy, the government is committed to continue building constructive partnerships with the federal government and other partners to achieve meaningful improvements in the lives of Ontarians.

Achieving Federal-Provincial Fiscal Sustainability in the federation

Fiscal sustainability

Q: Ontario says there is a structural vertical fiscal imbalance, where provinces and territories are in a worse fiscal position than the federal government. Is that still the case even with the federal government running \$30 billion deficits?

A: Canada faces rising challenges including an aging population and long-term economic uncertainty. These issues will likely impose significant fiscal pressure on the provinces and territories, as they are predominantly responsible for programs and services sensitive to demographic changes.

In other words, Provinces are the custodians of those public services that are not only of greatest importance to Canadians, but also those services that are subject to the greatest increasing cost pressures, such as health care and social services.

A number of studies have shown that the provinces and territories as a whole are in a fiscally unsustainable position over the long term. At the same time, the federal government, though it is currently in a deficit position, has a greater ability to raise revenue relative to the services it delivers, and is projected to be fiscally sustainable. In fact, the recent Department of Finance Canada report, *Update of Long-Term Economic and Fiscal Projections*, projected that federal net-debt-to GDP will decline over time.

Major think tanks and experts, such as the Conference Board of Canada and the Parliamentary Budget Officer, have shown that there are significant challenges if action is not taken to address this imbalance between resources and responsibilities, particularly as the population ages.

The important challenges facing the country cannot, and should not, be tackled by one order of government alone – in the Canadian system, the best solutions result from governments working together.

Q: You say Ontario's economic growth is strengthening relative to the national average and the province's economy is projected to exceed the average in the near term. Does this mean Ontario will fall out from the Equalization program? If so, when do you expect the province to no longer get Equalization payments?

A: Equalization is driven by a formula defined by the federal government. Given certain features of the Equalization program, such as the weighted averages and lags used for calculating fiscal capacities, it takes some time for current economic conditions to be reflected in Equalization entitlements.

Ontario is projected to receive Equalization payments over the medium-term.

There are, however, risks to Ontario's Equalization forecast over the medium and longer term as Ontario's economy improves relative to other provinces.

Ontario will continue to focus our efforts on taking action to support job creation and economic growth within the Province.

Q: You say that Ontario continues to be a significant net financial contributor to the Canadian federation. Is that true?

A: Yes. As research by the Mowat Centre and others has shown, Ontarians have consistently contributed more to the federal government in total tax revenues than the federal government has invested back in Ontario.

The Mowat Centre has recently estimated that this shortfall was \$7.7 billion in 2014-15 (equal to 1.1 per cent of provincial GDP).

This gap has been increasing from the size of the gap measured by the Mowat Centre for 2009-10.

The Equalization program is a major element of Ontario's net contribution. For example, in 2017-18, Ontarians are estimated to contribute about \$7.1 billion to help fund the Equalization program, while the Province will receive about \$1.4 billion in Equalization payments.

As Ontario's economy growth strengthens relative to the national average, Ontario's contribution to the federation is expected to continue to grow.

Q: You now point to a \$7.7 billion gap with the federal government. What happened to the \$11 billion gap Ontario was always talking about? Does this mean the gap is getting smaller?

A: A previous Mowat report from 2013, based on data from 2009-10, had estimated that Ontario's net contribution to the federation was \$11 billion. Following the release of new and reconfigured Statistics Canada data, the Mowat Centre finds

that Ontario made a net contribution of \$7.7 billion in 2014-15 (equivalent to 1.1 per cent of provincial GDP).

This gap is in fact larger than in 2009-10.

When extending Statistics Canada's new data methodology to past years to ensure comparability, the gap in 2009-10 had been \$6.5 billion — not the \$11 billion published in the 2013 report; thus the currently estimated gap for 2014-15 is greater than in 2009-10. In other words, Ontario's net contribution to the federation is increasing.

Federal-Provincial Collaboration: Effective, Efficient and Equitable Intergovernmental Relations in Canada

Protecting the Canadian Health System

Q: When the federal government proposed new health funding last December, provinces including Ontario said that the federal proposal was not adequate. Why did Ontario end up accepting the federal proposal?

A: Health care is a cherished Canadian institution, embodying core values that tie our country together.

Ontario is on the front line providing health services, including mental health and home care, in an era of rising costs and tight fiscal constraints. The Province has managed these pressures by making investments to transform the health system to better serve the patients of today and tomorrow.

We would have liked to see the federal government recognize the pressures that Ontario and all provinces face with aging populations, population growth, and the costs of meeting the needs of patients and their families.

However, by coming to an agreement on new federal support for health, we can move forward.

In March, the federal government and the Province agreed to new federal funding of \$4.2 billion over 10 years in support of home care and mental health initiatives in Ontario. This funding builds on investments the Province is already making in these health priorities.

As we continue to make investments in the health care system to adapt to a growing and aging population, and to implement new procedures and technologies, the Province is committed to a collaborative and national approach as the best way to protect our universal, publicly funded system and ensure that all Canadians receive the support they need.

Taking a Balanced Approach to the Next Phase of the Federal Infrastructure Investment

Q: What is Ontario's position as it enters the next phase of infrastructure investments negotiation with the federal government?

A: Federal funding is an important component of Ontario's long-term infrastructure plan, which includes investments of more than \$190 billion over 13 years, starting in 2014-15.

Many years of critical capital planning and prioritization work already undertaken by Ontario should be recognized to maximize the benefits of federal investments.

It is essential that the federal government adopt a flexible approach to funding as it rolls out the next phase of its infrastructure investment plan.

Agreements should allow provinces and territories to direct federal funding towards existing priorities and programs in a timely manner without additional unexpected fiscal costs to the Provinces and municipalities.

Renewing Labour Market Transfers to Meet Modern Labour Market Demands

Q: In its recent budget, the federal government committed to undertake a significant reform of the labour market transfer agreements, in collaboration with provinces and territories. What will Ontario look for in the renewed agreements?

A: For many years, the primary challenge for Ontario has been the requirement in existing federal funding arrangements that directs about 70 per cent of funding for training to current or recent Employment Insurance (EI) recipients. As only 28 per cent of unemployed Ontarians received EI regular benefits in 2016, the majority of Ontario's unemployed workers were not eligible for federally funded training.

Ontario welcomes the federal government's announcements to improve and strengthen labour market funding, including its commitment to significantly reform labour market transfer agreements in collaboration with provinces and territories.

Ontario will continue to work closely with the federal government and other partners to ensure labour market agreements meet the need of Ontarians today and in the future.

As part of labour market transfers reform, the renewed agreements should

- Maximize flexibility in labour market transfers to give the Province freedom to design and deliver inclusive labour market programs to help all Ontarians;
- Increase overall federal investment in national labour market transfers, fully delivering on federal platform commitments; and
- Allocate a proportional and fair share of new federal investments to Ontario.

Working in Partnership with Municipalities

Support to Municipalities

Q: What is the government doing to support municipalities?

A: Our government has a very strong record of supporting and working with municipalities.

In 2017 alone, municipalities are benefitting from more than \$4 billion in ongoing support through the Ontario Municipal Partnership Fund (OMPF), provincial uploads, and other provincial initiatives — an increase of \$2.9 billion from the level provided in 2003.

- This includes over \$2.4 billion to municipalities through the combined benefit of both the OMPF and provincial uploads.

Going forward, the government's focus will be on investing in the infrastructure that is vital to the health, prosperity and quality of life of Ontarians. In partnership with communities, Ontario is making significant infrastructure investments to create jobs and help the Province grow and prosper.

The Province's infrastructure commitments include transit, transportation and other priority infrastructure through Moving Ontario Forward that is supported by \$31.5 billion in dedicated funds.

- As part of the Moving Ontario Forward plan, the OCIF provides steady funding to support small, rural and northern communities to address critical infrastructure projects. In 2016, the government tripled funding under the program to reach \$300 million per year by 2018-19.
- The government has also announced increased funding for Ontario's Connecting Links program to help municipalities repair roads and bridges connecting two ends of a provincial highway through a community or to a border crossing. In 2017-18, Ontario will provide \$25 million and funding for the Connecting Links program will increase to \$30 million per year by 2018-19.

- In fall 2016, the Province announced a bilateral agreement with the federal government that will make available more than \$1.1 billion under the Clean Water and Wastewater Fund (CWWF). Under the agreement with the federal government, the Province has submitted over 1,300 projects for federal approval. Forty-one initial projects were approved under the CWWF for federal and provincial funding.
- In addition, as announced earlier this year, Ontario will increase gas tax funding starting in 2019, doubling the municipal share from two to four cents per liter by 2021 with an estimated funding of \$642 million in 2021-22, with no added tax at the gas pump.
- This program provides eligible municipalities with a guaranteed source of funding to address priorities, such as building capacity, and improving and expanding transit services.

Q: Why is there a decrease of \$8 million for the OMPF when comparing the 2016-17 Interim Actuals amount of \$505 million to the 2015-16 Actuals amount of \$513 million?

A: The \$8 million decrease from 2015-16 Actuals to 2016-17 Interim Actuals is largely a result of the continued implementation of the OMPF phase-down (i.e., \$505 million in 2017 compared with \$505 million in 2016 and \$515 million in 2015), as well as the differences between the Province's budget planning cycle and that of municipalities.

Q: How is the government supporting Toronto?

A: The Province remains committed to maintaining a strong partnership with the City, and to continuing to make progress in areas of shared interest.

This commitment is demonstrated by the fact that provincial support to Toronto has increased significantly in recent years, including through the provincial uploads of Ontario Drug Benefits, Ontario Disability Support Program, Ontario Works Benefits and Court Security and Prisoner Transportation costs.

- The total benefit of the provincial uploads for Toronto in 2017 is almost \$530 million or approximately 14 per cent of the City's property tax revenues.

Toronto is also benefiting from the provincial gas tax program, as well as the Province's increased share of public health and land ambulance funding.

- Starting in 2019, Ontario will be increasing funding for local transit through an enhancement to the existing gas tax program, doubling the municipal share from two cents per litre to four cents by 2021.

This document builds on this strong track record, for example by

- Proposing to allow Toronto and other municipalities impose a hotel tax – identified by the City as a critical, time-sensitive ask.
- Proposing to empower Toronto and potentially other municipalities to introduce a tax on vacant homes, as part of the government's Fair Housing Plan.

Partnering with First Nations on Tobacco

Q: How is the government working with First Nation communities to address unregulated tobacco?

A: The government remains committed to continuing a dialogue with First Nations to identify mutually-beneficial solutions to tobacco.

The government continues to support two tobacco pilot projects with the Chippewas of the Thames First Nation and the Mohawk Council of Akwesasne, with the goal of reaching agreements on self-regulation of tobacco on-reserve, and revenue-sharing.

The Province is also working with the Anishinabek Nation, representing 40 First Nation communities across Ontario, to develop a framework related to tobacco and gasoline sales on-reserve that could generate revenue for Anishinabek Nation communities from on-reserve sales of tobacco and gas.

Based on the work of the pilot projects, the government is also engaging other First Nations communities and organizations across the province to discuss a First Nations-led tobacco regulatory approach.

As part of these discussions, the government is discussing sharing a portion of overall tobacco tax revenue with First Nations that come to an agreement with the province on tobacco regulation on-reserve.

Q: What has been the progress to date with the two First Nations tobacco pilot projects?

A: Since 2012, the Ministry of Finance and Ministry of Indigenous Relations and Reconciliation have been working with two First Nation communities (Chippewas of the Thames and the Mohawk Council of Akwesasne) on pilot projects to explore self-regulation of tobacco on-reserve and revenue sharing.

The pilot projects with the two First Nation communities have provided an opportunity for conducting joint research, enhanced dialogue and building the capacity of First Nations to analyze, develop and sustain a self-regulatory tobacco system.

Both pilots have made good progress. The communities have developed laws for the regulation of tobacco on-reserve, and the Mohawk Council of Akwesasne has passed their tobacco law through a community referendum. The intent of the tobacco laws for both communities is to protect the health, safety, and welfare of community members.

Many aspects of these laws align with Ontario's tobacco-related laws, such as licencing all tobacco activities on reserve, and establishing compliance measures. Areas that require further discussion include a levy that is comparable to the provincial tobacco tax rate and how First Nation communities would trade and transport tobacco between other regulated First Nation communities.

Q: What changes to the Tobacco Tax Act is the government intending to make regarding First Nation tobacco laws?

A: As discussions with First Nations on tobacco continue to progress, the province is prepared to collaborate with First Nations to make amendments to the *Tobacco Tax Act*, as well as other Acts as necessary, to support the effective coordination and integration of provincial legislation with First Nation tobacco laws in the future.

Q: What progress has the government made with the modernization of the Ontario Gas Card?

A: In summer 2016, the Province launched an engagement process to seek advice from First Nation communities, and industry stakeholders representing gasoline wholesalers and collectors, on modernizing the Ontario Gas Card Program.

First Nation communities, on-reserve gasoline retailers, Political Territorial Organizations, and industry stakeholders, were invited by letter to participate and provide feedback in the engagement process.

Feedback received has been used to develop recommendations to modernize the gas card program, including replacing the current Ontario Gas Card with a more secure card in 2017-18, and continuing to work with First Nations and industry to identify and implement the best technological solution to support the modernization of the Ontario Gas Card program.

Q: Why is the government proposing amendments to FIPPA and MFIPPA?

A: Indigenous communities are often engaged and consulted by the Province and municipalities on a variety of topics including land use planning, environmental assessments, development proposals and resource management discussions. During the course of these discussions, confidential and sensitive information is often shared.

There is currently no legislative mechanism to protect information from Indigenous communities when a Freedom of Information (FOI) request is made, and Indigenous communities are reluctant to share information in light of the absence of a specific exemption.

The Province has proposed amendments to the *Freedom of Information and Protection of Privacy Act*, and the *Municipal Freedom of Information and Protection of Privacy Act*, to improve the ability of the province and municipalities to protect sensitive information received from or relating to Indigenous communities when a FOI request is made.

The proposed amendments are one step toward addressing the recommendations of the Truth and Reconciliation Commission, and enabling Indigenous communities to be full partners in discussions with the province and municipalities.

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Branch: Program Policy & Analytics ranch, Tax & Benefits Administration

CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

SECTION A – TRANSFORMING GOVERNMENT FOR SUSTAINABILITY AND FAIRNESS

Evidence-Based Decision-Making

Improving Programs and Services through Behavioural Science Research

Q: What is the Behavioural Insights Unit?

A: The Behavioural Insights Unit (BIU) was announced in the 2015 Budget to design and test low-cost ways of improving public services by taking into account our best understanding of how people use, engage with, and respond to those services. To achieve this, the BIU is helping the government apply knowledge and methodologies from the behavioural sciences.

Behavioural insights come from decades of research in economics, psychology, and sociology that shows that context shapes decisions. Behavioural insights suggest that carefully designing that context according to what we know about human behaviour provides a cost-effective way to promote better decision-making. Without constraining citizens' choices, behavioural insights has been shown to increase the likelihood that people will make decisions that lead to healthier, happier, and more sustainable outcomes.

Q: How does applied behavioural insights support transformation and efficiency initiatives across government?

A: A growing body of evidence from across the globe demonstrates that behavioural science insights — methodologies and knowledge from disciplines such as behavioural economics and psychology — can be used to design government programs to better serve citizens. In addition to improving outcomes for Ontarians, behaviourally-informed design can also increase efficiency. For example, the BIU has successfully applied behavioural insights to increase the number of Ontarians that renew their license plate stickers online and on-time. As a result, during the pilot \$1.6 million more was collected in 90 days due to on-time sticker renewal.

Q: How is behavioural insights being used in other jurisdictions? How is Ontario's Behavioural Insights Unit a leader?

A: Governments around the world, including in the United Kingdom, the United States, and Australia, have found that incorporating behavioural insights into their programs and policies can help them deliver better results at a lower cost to their citizens. These governments have developed small dedicated teams of behavioural science experts to design and test solutions — ultimately determining what works, and what doesn't work — before scaling up.

Now, a large number of jurisdictions including the federal government and provincial governments (Ontario and British Columbia), are incorporating behavioural insights into the design and delivery of public programs and services to improve their effectiveness and outcomes.

Q: What has the Behavioural Insights Unit done or how have they “significantly improved outcomes and services for Ontarians while also lowering costs”?

A: To date, the Behavioural Insights Unit (BIU) has completed several pilot projects, and is working with partner ministries on a number of other initiatives. These projects have resulted in program savings and improved outcomes for government. For example:

- Organ and tissue donation: By simplifying the paper registration form and distribution, the BIU saved an average of 2.5 minutes per donor registration transaction, and increased organ and tissue donor registrations by 143 per cent in the Service Ontario pilot sites.
- E-Service Adoption (license plate sticker renewal): By making cost free changes to the paper renewal reminder that made the online channel more salient and attractive resulted in a 42 per cent relative increase in the number of online renewals. As a result, during the pilot \$1.6 million more was collected in 90 days due to on-time sticker renewal.
- Tax Collection – Employer Health Tax: Providing employers with clear instructions on how, where, and when to file their overdue taxes resulted in a 33 to 40 per cent increase in the number of tax returns filled within ten days, when a new reminder letter was tested in 2014 and 2015. With no evidence that the beneficial effect of the letter decreased from year-to-year, the Ministry of Finance expects to save thousands of dollars in collections costs each year while also helping businesses avoid unnecessary interest charges on their taxes.

- **Underground Economy – Roofing:** By applying behavioural insights to the Ministry of Labour’s online advertising campaign, aimed at making homeowners aware of the risks inherent in the underground economy, the BIU helped increase traffic to the Ministry of Labour’s website by 144 per cent.

Q: Who is the Behavioural Insights Unit working with?

A: The Behavioural Insights Unit (BIU) collaborates with ministries, agencies, and public service providers to help design policies and services that reflect our best understandings of how people engage with, make use of, and respond to government services. Currently, the BIU is engaged with partners such as ServiceOntario, Trillium Gift of Life Network, Ministry of Health and Long-term Care, and Cancer Care Ontario.

The BIU also works with the Rotman School of Management’s Behavioural Economics in Action Research Hub at the University of Toronto as well as faculty at Queen’s University. Our academic partners provide expert advice in the design and evaluation of policies and programs.

Q: What does “low-risk experimentation” mean?

A: Low-risk experimentation simply refers to the behavioural science method of rigorously pilot testing solutions — often in a rapid, iterative process — before scaling up.

Transformation and Efficiency Initiatives

Improving Sustainability and Value for Money for Existing Programs

Q: The 2017 Budget speaks to the government’s strong track record in meeting fiscal targets, but program spending continues to increase. What is the government’s track record in meeting its program review targets?

A: While on track to balance the budget in 2017–18, the government continues to make investments in key public services relied on by families. Ontario is providing value for tax dollars spent by focusing on outcomes through Program Review, Renewal and Transformation — and by retaining the lowest per capita program spending in Canada.

Prior to the development of PRRT, the government set out and achieved savings targets of \$250 million for 2014–15 and \$500 million for 2015–16. Through PRRT the government identified additional initiatives to modernize public services. While work on these initiatives will continue to improve outcomes for Ontarians they are at the same time supporting the Province’s fiscal objectives through the management of expenditures and improved program effectiveness, efficiency and

sustainability. The details of the measures implemented can be found in Chapter II, Section B, of last year's (2106) Budget.

Q: What is the difference between an approach to improving sustainability and an approach to improving outcomes?

A: When preparing their PRRT submissions ministries are asked to consider four lenses in relation to their programs; relevance, effectiveness, efficiency, and sustainability.

Sustainability of programs focuses both on how effective those programs are in leveraging resources to deliver the anticipated results as well as how that money could be better leveraged in the current fiscal realities. Government will need to ask itself some key questions to address the sustainability question:

- Are there opportunities for modernization of a program to ensure it is operating in the most cost effective way?
- Does the program continue to meet the needs of Ontarians?
- Should it be eliminated or changed to better meet those needs?

In an effort to improve program outcomes the government will seek ways to more effectively deliver the programs that matter most to Ontarians. It is about re-imagining these programs and where it makes sense, do things differently. Ministries will be asked to consider:

- Are their innovative yet business practices and service models that should be considered in the programs operation
- Is there an opportunity to pilot, prototype or test new approaches to see what works?
- Can we scale up new approaches where evidence shows that they help to improve outcome or enhance a service experience?

Q: How will this be different from previous, similar exercises?

A: The government has a strong track record in meeting its fiscal targets. This exercise will build on those approaches and drive further effectiveness and efficiency.

We've learned from other jurisdictions that these initiatives are more successful when they take a longer-term approach that is built into the fiscal cycle where base spending is examined annually. From discussions with global leaders we have also found that government and central agencies specifically can't expect to be successful on their own.

The process will be undertaken in addition to other efforts to support fiscal objectives, with the benefit of lessons learned from both Ontario and abroad. It will be focused, in terms of the goals, and integrated into fiscal planning and decision-making.

Q: Should the public be concerned about losing important programs?

A: The government is committed to openness and transparency. As the process unfolds, the government will consult with ministries, central agencies on review efforts. Stakeholder concerns and the values of Ontarians will be key considerations.

In some cases, government will include users in spending reviews to help shape the scope of the review, interpret and challenge the reviews findings and inform the recommendations and their implementation.

Transforming the Delivery of Income-Based Benefits

Q: What's the current status of the Benefits Transformation initiative?

A: The government is transforming the way income-based benefit programs are delivered to Ontarians to ensure programs and services are effective, efficient and sustainable.

Progress has been made on foundational initiatives that set the stage for achieving the broader Benefits Transformation vision. Since the release of the 2016 Budget, Ontario has introduced and passed new framework legislation, the *Benefits Administration Integration Act (BAIA)*, that will allow for information sharing across benefit programs. Once fully implemented, clients will no longer be required to provide personal information multiple times when applying to different benefit programs.

Ontario has also partnered with the Canada Revenue Agency (CRA) to provide Automated Income Verification (AIV) for applicants to a growing number of programs. These applicants will no longer be required to bring paper-based proof of income.

Q: What's the status of the Benefits Administration Integration Act (BAIA), introduced last year in the budget bill?

A: Since the release of the 2016 Budget, Ontario has introduced and passed new framework legislation, the *Benefits Administration Integration Act (BAIA)*, that will allow for information sharing across benefit programs. BAIA received Royal Assent in April 2016. Proclamation of the Act and development of regulations is expected for summer 2017.

Once fully implemented, clients will no longer be required to provide personal information multiple times when applying to different benefit programs.

Q: What programs does the Ministry of Finance currently provide Automated Income Verification (AIV) services for?

A: The Ministry of Finance (MOF) has partnered with the Canada Revenue Agency (CRA) to provide Automated Income Verification (AIV) for applicants to a growing number of income-based benefit programs.

MOF currently provides Automated Income Verification (AIV) services for the Investment in Affordable Housing program on behalf of the Ministry of Housing; the Healthy Smiles Ontario program on behalf of the Ministry of Health and Long Term Care; the Ontario Electricity Support Program on behalf of the Ontario Energy Board; and the Child Support Service on behalf of the Ministry of the Attorney General. The AIV service will also be used for the Basic Income Pilot.

Applicants to these programs are not required to bring paper-based proof of income.

Q: What's the status of the My Benefits Account initiative?

A: Foundational work supporting the development of the My Benefits Account (MBA) initiative is underway. This includes conducting client experience research and consulting with ministries and service delivery partners on a digital strategy for Ontario benefits delivery.

Once fully implemented, the MBA would provide clients with centralized, online access to multiple benefit programs to make it easier for people to apply for benefits they are entitled to receive and manage their personal information. The MBA would also enable program areas and administrators to view client information across programs, support more efficient benefits delivery, and improve policy analysis.

Prepared by: Melissa Molson/Jawhar Kassam

Branch: Benefits Transformation Branch, Tax & Benefits Administration

Addressing the Underground Economy

Q: What is the size of the underground economy (UE) in Ontario?

A: In a 2016 report, Statistics Canada estimated the underground economy to be 2.4% of GDP in 2013, or \$45.6B, of which Ontario's share, based on Ontario's share of GDP (37%), is estimated at \$16.8B.

In 2013, three industries accounted for over half the total UE value added, residential construction (27.8%), retail trade (12.5%), and accommodation and food services (11.7%).

Q: Why isn't Ontario doing more to address the underground economy?

A: Since 2013-14, the government has taken concrete action to address the underground economy, and support a fair and efficient tax system. Some examples include:

- Enhancing compliance initiatives resulting in more than \$1.2 billion for Ontario to date - an increase of over \$350 million to the amount reported in the 2016 Budget;
- Making the use, manufacture and distribution of electronic sales suppression devices an offence under the Taxation Act, 2007;
- Requiring corporations to demonstrate federal and provincial tax compliance before receiving government contracts;
- Establishing specialized audit teams in partnership with the Canada Revenue Agency, to target sectors at high risk of UE activity. These teams consist of specialized auditors who use innovative enforcement tools to help ensure compliance with tax obligations.
- Moving forward on the recommendations made by former Parliamentary Assistant Laura Albanese in "Addressing Ontario's Underground Economy in the Residential Construction Sector." This report was informed by extensive consultations during spring 2016 with the residential construction industry on issues related to the UE.
- Proposing amendments to the Ministry of Revenue Act to strengthen the Province's ability to identify and address industry sectors that are at high-risk for UE activity. More effective information sharing and data analytics across Ontario government ministries and entities, and with the municipal and federal governments, will better enable the Province to target enforcement efforts in the future and strengthen consumer and worker safety and protection.

- Launching a pilot project in 2018 in the retail and hospitality sectors to test security software that will identify the use of electronic sales suppression technology.
- Launching a communication campaign to find ways to raise awareness and educate the public on the risks and potential liabilities associated with participation in the UE.

Q: Can you explain the \$1.2 billion figure for enhanced compliance initiatives? Where does it come from?

A: To date, over \$1.2 billion has been generated from enhanced compliance initiatives consisting of:

- The government's agreement with the federal government to address non-compliance with federally administered provincial taxes which has generated approximately \$875 million since 2013-14; and
- Ontario's own enhanced compliance measures focused on provincially administered taxes, such as the Employer Health Tax, which have generated approximately \$409 million since 2013-14.

When combined, these enhanced compliance measures have generated over \$1.2 billion since 2013-14.

Q: Has the government issued any penalties since amending the *Taxation Act, 2007* to make the sale, use or distribution of electronic sales suppression devices an offence?

A: Since Ontario amended the *Taxation Act, 2007* in 2015, the CRA has applied one penalty on behalf of the province. This is in addition to several other cases in which federal penalties for sales suppression were applied prior to Ontario's legislation taking effect.

Prepared by: Andrew Ogilvie/David A. Hall

Branch: Program Policy & Analytics Branch, Tax & Benefits Administration

Addressing Unregulated Tobacco

Q: What are the benefits to the taxpayer of addressing unregulated tobacco?

A: The presence of low-cost, unregulated tobacco in Ontario undermines provincial health objectives, results in less tobacco tax revenue for critical public services and compromises public safety through links with organized crime.

Easy access to a large supply of unregulated tobacco products prevents tobacco taxes from being as effective as they should be, both as a health policy tool and a source of revenue to provide for important public services that benefit all Ontarians.

Q: What is the size of the unregulated tobacco market in Ontario?

A: By virtue of being illegal activity, it is difficult to precisely measure the size of the unregulated tobacco market in Ontario. However, a variety of reports typically estimate the size of the unregulated market to be between 20% and 40% of the Ontario tobacco market.

It is estimated that Ontario loses up to \$500 million in tobacco tax revenues annually due to unregulated tobacco.

Q: What is the government doing about unregulated tobacco in Ontario?

A: Addressing unregulated tobacco is a priority for the government and requires a balance of partnerships and enforcement.

Enforcing Ontario's tobacco tax laws complements the Smoke-Free Ontario Strategy. Since 2008, provincial inspections and investigations have resulted in assessed penalties of more than \$38 million under the Tobacco Tax Act. In addition, the government has seized more than 260 million unregulated cigarettes, over 4 million untaxed cigars, and more than 186 million grams of other unregulated tobacco products.

Effective January 1, 2015, the Ministry assumed oversight of raw leaf tobacco in Ontario. Implementation of raw leaf tobacco oversight helps impede the flow of raw leaf tobacco to unregulated tobacco product manufacturers. Building on previous initiatives, the government is further enhancing the oversight of raw leaf tobacco.

The government has established the Contraband Tobacco Enforcement Team in partnership with the Ontario Provincial Police to address the link between unregulated tobacco and organized crime. The Team has a number of ongoing tobacco investigations targeting organized crime groups and has assisted other police forces in their major investigations.

The government has also partnered with four public health units to undertake cross-designation pilot projects where inspection officers will be cross-designated under both the *Tobacco Tax Act* and *Smoke-Free Ontario Act*. These pilot projects allow inspectors to identify and seize unregulated tobacco and flavoured tobacco products during retail inspections.

The new measures announced in Budget 2017 will continue to build on existing efforts to reduce unregulated tobacco in the province.

With respect to First Nation engagement, the province continues to work towards building partnerships with First Nation communities on tobacco. As well as continuing to work with the Chippewas of the Thames First Nation and the Mohawk Council of Akwesasne on tobacco pilot projects, the government is engaging First Nation communities and organizations across the province on the self-regulation of tobacco on-reserve and revenue-sharing.

Q: What have been the outcomes of the Contraband Tobacco Enforcement Team?

A: The Ontario Provincial Police, in partnership with the Ministry of Finance, has established a dedicated Contraband Tobacco Enforcement Team that focuses on addressing the link between unregulated tobacco and organized crime.

Tobacco smuggling and production is seen as a lucrative opportunity for organized crime. Links have been made between organizations involved in tobacco smuggling with other more serious illegal activity such as drug and weapons trafficking.

To date, the team has led or supported a number of tobacco investigations targeting organized crime groups, resulting in charges being laid under the *Criminal Code* and *Tobacco Tax Act*.

Q: What have been the outcomes of cross-designating tobacco inspections officials under the Smoke-Free Ontario Act, and the Tobacco Tax Act?

A: As announced in the 2016 Budget, the government has launched pilot projects with four municipal public health units to cross-designate inspection officers are under both the *Tobacco Tax Act* and *Smoke-Free Ontario Act*. The four public health units are located in Toronto, Niagara Region, Simcoe Muskoka and Thunder Bay.

This enables both MOF Inspectors and Tobacco Enforcement Officers to seize tobacco that is found to be in contravention of select provisions of Tobacco Tax Act and/or Smoke-Free Ontario Act during their regular course of inspections. As a result, inspectors are able to identify and seize unregulated tobacco and flavoured tobacco products during routine retail inspections.

This project has enabled strong collaboration between the Ministry of Finance, Ministry of Health and Long-Term Care, and the four public health units, and has supported increased opportunities for education and inspection coverage in the Pilot locations.

Based on the experiences, the government will consider expanding the approach. An evaluation will occur in the Summer, 2017.

Q: Why is the government enabling forfeiture of items under the *Tobacco Tax Act*?

A: The Ministry of Finance is introducing amendments to the *Tobacco Tax Act* to allow for the forfeiture of assets seized as evidence of a tobacco-related offence. This could include things like vehicles and cash.

Expanding asset forfeiture provisions within the TTA creates an added deterrent against dealing in unregulated tobacco. It also targets and disrupts larger-scale distributors and sellers of unregulated tobacco.

Q: Why is the Province proposing to regulate cigarette filter components?

A: In the 2015 and 2016 Budgets the province committed to examine opportunities to regulate key tobacco components, such as acetate tow, which is essential to the manufacturing of cigarette filters.

Provincial oversight of cigarette filter components, such as acetate tow and cigarette filter rods, is intended to reduce diversion of these products into the unregulated tobacco market.

By making it more difficult for unlicensed tobacco manufacturers to manufacture tobacco products, the regulation of cigarette filter components is anticipated to disrupt the availability of untaxed tobacco products in Ontario.

Q: How will provincial oversight of cigarette filter components work? Will there be new licenses/registrations/permits required?

A: There will be no new requirements for persons registered to manufacture tobacco products under the Tobacco Tax Act to obtain new licence, permits or registration certificates in order to import or possess cigarette filter components.

Similar to requirements under the Tobacco Tax Act for the equipment for manufacturing cigarettes, every person that imports into Ontario or possesses in Ontario cigarette filter components will be deemed to be a manufacturer under the Act, unless that person meets prescribed circumstances set out in regulation. These provisions will come into effect on January 1, 2018.

The government understands that not all businesses who import materials such as acetate tow use it for the manufacture of cigarettes, and will be engaging these stakeholders over Summer 2017 to develop a Regulation that will exempt these businesses from the new requirements.

Q: Why is the government requiring Retail Sales Tax Act vendor permit holders' to transition to the Tobacco Retail Dealer's Permit?

A: Effective July 1, 2018, all tobacco retailers in Ontario who held a vendor permit under the Retail Sales Tax Act (RSTA) will be required to hold a Tobacco Retail Dealer's Permit (TRDP).

To ease transition to the TRDP in 2010, tobacco retailers that held a RSTA vendor permit on or before June 30, 2010 were not required to apply for the TRDP and were allowed to hold the RSTA vendor permit.

It has been over six years since the TRDP was introduced under the Tobacco Tax Act. Transitioning RSTA vendor permit holders to TRDPs gradually over the next 12 to 14 months will create uniformity among retailers and ease permit administration for government.

There is no cost to apply for the TRDP. Retailers can mail a completed TRDP application form to the Ministry of Finance. The form is available on the Ministry's website.

Q: How is the government planning to get Retail Sales Tax Act vendor permit holders to apply for the Tobacco Retail Dealer's Permit?

A: The Ministry of Finance will be working with internal and external stakeholders to support impacted retailers in transitioning to the TRDP.

Retailers who do not hold a TRDP can be subject to fines and penalties.

Q: Would on-reserve tobacco retailers need to apply for a Tobacco Retail Dealer's Permit?

A: On-reserve tobacco retailers who hold an authorization letter from the Ministry of Finance under the First Nations Cigarette Allocation System are deemed to hold a TRDP and are not required to register for it.

On-reserve tobacco retailers that do **not** hold an authorization letter from the Ministry of Finance would need to apply for a TRDP.

Q: Why is the government proposing to publish information on convictions under the Tobacco Tax Act?

A: Research has demonstrated that communicating about enforcement actions can be a powerful tool in promoting compliance and increasing awareness about regulatory laws.

Although information on convictions is public records through the courts, the Ministry of Finance does not currently have legislative authority to publish data on convictions under its tax statutes including the *Tobacco Tax Act*. This limits the ministry's ability of using communication about enforcement actions as an effective tool to encourage compliance with tax laws.

Q: What changes to Raw Leaf Tobacco compliance and enforcement measures are proposed?

A: The Ministry of Finance is proposing a number of enhancements to provincial Raw Leaf Tobacco (RLT) oversight that will strengthen compliance and enforcement provisions related to non-compliance with RLT requirements by:

- Clarifying the definition of producing RLT;
- Strengthening the calculation for penalties and fines in respect of failing to comply with a condition or restriction on a RLT registration certificate to take into consideration the amount of RLT involved;
- Creating civil penalties and offences for certain prohibitions related to record keeping, and possession of required documents for transporting RLT;
- Clarifying an interjurisdictional transporter's duties in respect of RLT;
- Clarifying that seizure of RLT that has not yet been harvested allows for the RLT to be removed and destroyed; and
- Allowing the Minister to recover the cost of removed and destroyed RLT from the person responsible for the tobacco.

Q: Why strengthen Raw Leaf Tobacco compliance and enforcement provisions?

A: To further enhance its raw leaf tobacco oversight regime, the strengthened compliance and enforcement provisions will make it more difficult to divert RLT bales and packages to illegal manufacturers as unlabeled bales will be more easily identified during inspection.

The new provisions will also increase compliance by making it less profitable for registered producers to divert RLT to illegal manufacturers and ultimately increase legal tobacco sales by reducing the percentage of additional contraband in the illegal market.

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Branch: Program Policy & Analytics Branch, Tax & Benefits Administration

Details of Ontario's Finances

Ministry of Agriculture, Food and Rural Affairs

Q: How is the government supporting the agricultural sector through the Business Risk Management programs?

A: The Province remains committed to support Ontario's agricultural sector and fostering its growth through its continued support for the Business Risk Management Programs.

Ontario's Risk Management Program helps producers manage risks beyond their control, such as fluctuating costs and market prices. The program is available in these sectors: cattle, edible horticulture, grains and oilseeds, hogs, sheep and veal.

Q: How much is spent on the Rural Economic Development Program?

A: The re-launch of the Rural Economic Development (RED) Community Stream program, with a \$5 million annual funding envelope starting in 2017–18, was announced at the Rural Ontario Municipalities Association annual meeting to be held January 29–31, 2017.

The former business stream of the RED program is now integrated with the Jobs and Prosperity Fund to improve coordination of regional business support programs.

Q: How is the government supporting Ontario's Greenhouses?

A: In March 2017, the Province provided \$19M to the Agricultural Adaptation Council to support projects in Ontario's Greenhouse Sector advancing innovation and the sector's competitiveness.

- \$19M in 2016-17 will flow through OMAFRA to the Council to support initiatives that will further develop the greenhouse sector, such as encouraging innovation, competitiveness, and productivity.

[Note CONFIDENTIAL: The Ministry of the Environment and Climate Change also provided \$1 million in 2016–17 to the Council, who will in turn work with The Ontario Greenhouse Alliance (TOGA) to conduct pilot GHG reduction demonstration projects and a feasibility study to explore the integration of emerging renewable energy technologies in the greenhouse production cycle.]

Q: How is the government supporting Ontario's Small Distillery and Small Cider Sectors?

A: The Province announced on March 7, 2017 the details of the Ontario Small Cider and Small Distillery Support Program. The program will provide eligible businesses with support to grow and scale up their operations, including hiring more staff and purchasing new equipment.

This program builds on previously announced initiatives to support small cider and spirits producers, such as permitting spirits manufacturers to have a bar or restaurant at each of their licensed manufacturing sites and launching the sale of cider in grocery stores. Additionally, small spirits producers will soon be able to deliver directly to bars and restaurants, creating more exposure for their products.

Helping cider and spirits producers grow their businesses is part of Ontario's plan to create jobs, grow the economy and help people in their everyday lives.

- The Province will invest \$4.9 million over three years, starting in 2017–18, for the Small Cider and Small Distillery Support Program. (\$1.9 million in 2017–18.)
- Eligible ciders will receive up to 74 cents per litre and eligible distillers will receive up to \$4.42 per litre on eligible sales — to a maximum of \$220,000 per year per producer.

Ministry of the Environment and Climate Change

Q: What is the Supermarket Recovery Program?

A: The Supermarket Recovery Program will expand food rescue services by improving access to transportation and storage (e.g., flash freezing, refrigerated trucks, and refrigerated storage capacity), of surplus perishable and prepared foods. These grants could be made available, on a competitive basis, to social enterprises and food rescue organizations, such as Second Harvest or the Ontario Association of Food Banks.

Q: Why is there a need for a Supermarket Recovery Program?

A: In Canada, \$31 billion worth, or 40 per cent of all food produced is wasted. 47 per cent of that waste occurs at households, while 20% occurs during food processing and an additional 10 per cent at the retail level (Value Chain Management, 2014).

Q: Do any other programs like this exist in Canada?

A: This Ontario-wide Supermarket Recovery Program will mirror the program currently in place in Quebec, which connects food banks with grocery stores to ensure that perfectly edible surplus food can be donated to food banks and other similar organizations.

Q: What are the outcomes of the Supermarket Recovery Program?

A: By banning the destruction of edible food, Ontario would benefit in several ways, including:

- more food for food banks/ missions / school breakfast programs;
- lower carbon footprint by using 100% of produced foods;
- spoiled food could be donated to local farms for livestock feed (when appropriate), therefore, reducing costs on further local food production.

Ministry of Northern Development and Mines

Q: How is the Province supporting northern industries that are facing high electricity costs?

A: On April 7, 2015, the Ontario government announced it plans on making the Northern Industrial Electricity Rate Program ongoing with a continued investment of up to \$120 million per year.

The Northern Industrial Electricity Rate Program was introduced as a three-year program in 2010, and extended it in 2012. The program recognizes the unique needs of northern industries such as higher energy costs due to climate and distance to markets.

Other

Q: Why is projected spending in the Other Programs sector varying from year-to-year?

2017 Budget Outlook

\$ Billions	2016–17	2017–18	2018–19	2019–20
Other Programs	17.0	19.2	18.4	19.2

- A: Over the medium-term planning horizon, spending in the Other Programs sector is projected to grow to \$19.2 billion by 2019–20. This reflects investments in key initiatives including the Fair Hydro Plan to reduce electricity costs for all consumers, and increased spending on transportation and infrastructure.
- In addition, the profile is impacted by time-limited infrastructure investments which result in a temporary increase in 2017–18 spending, including:
 - The Public Transit Infrastructure Fund in the Ministry of Transportation, which will be used to upgrade and improve public transit systems;
 - The Clean Water and Wastewater Fund, which will support the rehabilitation of water treatment and distribution infrastructure and existing wastewater and storm water treatment systems; and
 - Investments in the Ministry of Agriculture, Food and Rural Affairs under the Small Communities Fund.

Note: The Other Programs sector consists of all program expenses that are not captured in the major sectors of the fiscal plan.

Q: What is causing the implicit change in spending in the Other Programs sector compared to the 2016 Budget?

Change from 2016 Budget

\$ Billions	2016–17	2017–18	2018–19
Other Programs	0.4	2.1	(0.7)

- A: The in-year increase of \$0.4 billion in 2016–17 is mainly due to the Green Investment Fund initiatives, the Ontario Rebate for Electricity Consumers, investments in social and affordable housing and the Clean Water and Wastewater Fund as indicated at the beginning of Chapter 6B of the 2017 Budget.

The evolution of Other Program spending since the 2016 Budget reflects many changes. The \$2.1 billion increase since the 2016 Budget in 2017–18 reflects electricity cost relief programs through the Fair Hydro Plan and time limited investments such as the Public Transit Infrastructure Fund.

The \$0.7 billion decline since the 2016 Budget in 2018–19 — while still reflecting electricity cost relief programs through the Fair Hydro Plan — is mainly due to directing unallocated funding from the 2016 Budget fiscal plan to the Health and Education Sectors for items such as targeted funding for hospital services,

Children and Youth Pharmacare, increased funding to school boards to support enrolment growth, and new investments in child care.

Note: Other than for the 2016–17 fiscal year, the change in Other Program spending is not explicitly published in the 2017 Budget. Nonetheless, this change for the 2017–18 and 2018–19 fiscal years can be calculated by comparing information in the 2017 Budget with information in the 2016 Budget.

CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

SECTION B – DETAILS OF ONTARIO’S FINANCES AND ECONOMIC OUTLOOK

OPS Employee and Pensioner Benefits Expense

Q: What is included in OPS Employee and Pensioner Benefits Expense?

A: The OPS Employee and Pensioner Benefits expense includes Public Service Pension Plan (PSPP) expense, OPSEU Pension Plan expense, and other employee future benefits expense (such as dental, basic life insurance, supplementary health and hospital benefits for retired employees, legislated severances, LTIP, and WSIB).

Q: Why has OPS Employee and Pensioner Benefits Expense forecast to increase from last year’s plan?

A: The OPS Employee and Pensioner Benefits forecast for 2017-2018 of \$1,208M is projected to be higher by \$148M compared to 2016 Budget forecast of \$1,060M. The increase is primarily due to reduction in discount rate for pension obligations and updated claim assumptions for benefits covered for employees currently on Long Term Income Protection (LTIP). The increase is partially offset by reduction in long-term salary growth assumption and updates in Ontario Provincial Police Association (OPPA) supplementary health and hospital benefits for OPPA retirees.

Q: Why is the 2017-18 OPS Employee and Pensioner Benefits expense of \$1,208M expected to increase by \$45M compared to the 2016-17 expense forecast of \$1,163M?

A: The 2017-18 OPS Other Employee Future Benefit Expense of \$1,208M is projected to increase by \$45M from \$1,163M primarily due to reduction in discount rate for pension obligations.

Q: Why is the 2016-17 OPS Employee and Pensioner Benefits expense of \$1,163M projected to increase by \$176M from the 2015-16 actual expense of \$987M?

A: 2016-17 OPS Employee and Pensioner Benefits expense of \$1,163M is expected to increase by \$176M compared to the 2015-16 actual expense of \$987M mainly due to a one-time savings with respect to plan change for OPSEU employees to cap termination pay accrued up to December 31, 2016 and due to savings as result of changes in long-term income protection in 2015-16.

Teachers' Pension Plan

Q: Why is the 2017-18 Teachers' Pension Plan income (i.e. negative expense) forecasted to increase from \$502M in 2016-17 to \$531M in 2017-18?

A: The Teachers' Pension Plan has experienced favourable investment returns in the past several years (i.e. 2009 to 2015). The cumulative effect of the investment gains forecasted for 2017-2018 on the net pension asset and those earned from prior years is more than sufficient to offset the Province's share of the cost of pension benefits that were earned by the members of the Teachers' Pension Plan. The income has grown in 2017-18 as more of the investment gains on fund assets earned from 2009 to 2015 are recognized.

Q: Why is the Teachers' Pension Plan income forecasted to be lower for fiscal year 2017-18 compared to what had been initially forecasted for the same year in last year's Plan?

A: The 2017-18 Teachers' Pension Plan income forecast has decreased compared to last year's Plan primarily due to reduction in the discount rate, and lower than expected market returns on pension fund assets in calendar 2016. This decrease is partially offset by lower salary escalation expectation, as well as lower than expected inflation.

Q: Why has the 2016-17 Teachers' Pension Plan income of \$502M increased by \$50M compared to what was forecasted in last year's plan?

A: The 2016-17 Teachers' Pension Plan income forecast has increased in the current fiscal plan due to a lower than expected rate of growth in active members.

Q: Does the 2017-18 income forecast of \$531M indicate a reduction in the Province's annual cash contributions in the plan?

A: No. Employee and employer contributions are determined by a funding valuation. Funding and accounting valuations serve different purposes.

The purpose of a funding valuation is to assess the long-term financial health of a pension plan. The valuation shows whether the plan has a surplus of assets, a shortfall of assets, or the right amount of assets to cover the costs of future pension benefits (including the level of future contributions required to meet the obligations of the plan). Whereas an accounting valuation is performed to calculate and present for accounting purposes the actuarial present value of benefits attributed to employee services rendered to a particular date.

An income (i.e. negative pension expense) does not imply a reduction in pension contributions. Whether an adjustment in the contribution rates is warranted would be determined based on the next funding valuation filed.

Interim Fiscal Outlook

Q: The government is reporting overachievement on its annual deficit target for the 8th year in a row. How is this possible? Is the government purposely setting easy targets?

A: No. The government's fiscal targets are based on the best available economic and fiscal information at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on. [Framework]

The overachievement in 2016-17 is mainly due to total revenue projected to be \$2.6 billion above the *2016 Budget* plan, largely because of strong performance in taxation revenues driven by a growing economy, as well as higher net incomes from Government Business Enterprises. [Ch. 6B, Pgs. 4, 9]

It is also the result of \$0.5 billion in lower interest on debt expense, primarily as a result of lower-than-forecast interest rates, along with effective and efficient debt management. [Ch. 6B, Pg. 9]

The fiscal plan outlined in the 2016 Budget included a \$1.0 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense forecasts in 2016–17. With a higher than expected revenue forecast exceeding higher projected expense, it is anticipated that the reserve will not be required by year-end and has been drawn down. [Ch. 6B. Pg. 4]

Medium-Term Fiscal Outlook

Q: Compared to the 2016 Budget, program spending is up in every year. How is the government going to maintain balance when spending is up?

A: The benefits of balanced budgets and a strengthening economy are providing the government with the fiscal flexibility to invest more to help Ontarians.

A balanced budget means that the government will no longer need to borrow to pay for its ongoing operating costs. The result: more money to invest in health care, education and other public services that matter most to Ontario families. A strong economy, together with a balanced budget, is positioning Ontario for long-term fiscal sustainability.

In addition, the government has a strong track record in meeting its fiscal targets, and is building on the success of recent initiatives to support the Province's fiscal objectives by expanding the review of current programs to identify opportunities for modernization and to ensure that expense growth is managed within the plan that is laid out in this [Document]. [Ch. 6A, Pg. 5]

Using the Program Review, Renewal, and Transformation (PRRT) lenses of effectiveness, efficiency, and long-term sustainability, programs will be reviewed and redesigned to improve value for money. A coordinated and systematic approach will ensure that Ontarians will continue to get the supports they need in the most cost effective way possible, and programs that no longer meet people's needs will be changed or eliminated. [Ch. 6A, Pg. 5]

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The fiscal plan also includes contingency funds (both operating and capital) to help mitigate expense that may otherwise adversely affect Ontario's fiscal performance. [Ch. 6B, Pg. 22]

Q: The federal government is running a deficit to boost the economy. Why has the Ontario government decided to target a balanced budget?

A: Ontario's economy has fully recovered from the global recession and has outpaced the economic growth not just of Canada, but of all G7 countries over the last three years. The government is projecting that it will restore balance to the Province's finances for the first time since the 2008–09 global recession. [Ch. 1, Pg. 3]

In the 2010 Budget, the government committed to eliminating the deficit and returning to a balanced budget by 2017–18, a commitment that has been reiterated year after year. [Ch. 1, Pg. 3]

Ontario has not only eliminated its deficit of more than \$19 billion at the height of the recession, it has done so without cutting vital programs and services. The benefits of balanced budgets and a strengthening economy are already providing the government with the fiscal flexibility to do more to help Ontarians. [Ch. 1, Pg. 3]

A balanced budget means that the government will no longer need to borrow to pay for its ongoing operating costs. The result: more money to invest in health care, education and other public services that matter most to Ontario families. A strong economy, together with a balanced budget, is positioning Ontario for long-term fiscal sustainability. [Ch. 1, Pg. 3]

A return to balanced budgets and investing to strengthen the economy is important for Ontarians because [Ch. 1, Pg. 3]:

Balanced budgets increase confidence in Ontario as a destination for investment that will further create jobs and economic growth.

Enhancements to programs and services that Ontarians depend on, such as health care and education, are prioritized over paying interest costs on accumulating debt.

The Province is in a stronger position and has greater flexibility to face the potential economic and demographic challenges that will arise over the next decade.

The Province's overall debt burden shifts away from borrowing for deficits to focusing solely on funding Ontario's infrastructure plan. This means the youth of Ontario and future generations, will not be burdened because of borrowing for deficits today.

Q: Why did the government reduce the reserve from \$1.0 billion in the 2016 Budget to \$0.6 billion in the 2017 Budget? Has the government included enough prudence in its fiscal plan? [FF]

A: The reserve has been set at \$0.6 billion in 2017–18 and 2018–19 and \$0.9 billion in 2019–20, reflecting continued prudence while recognizing the confidence arising from a strengthening Ontario economy and a restoring of fiscal balance in Ontario.

In addition to the reserve, the current outlook also maintains contingency funds to help mitigate expense risks – particularly in cases where health and safety may be compromised, services to the most vulnerable are jeopardized, or in the event of natural disasters – that may otherwise negatively impact Ontario's fiscal.

Furthermore, in keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions.

Q: Is the government balancing its 2017-18 Budget because it reduced the reserve?

A: No. The government has restored balance through targeted, measured and fiscally responsible decisions to manage growth in program spending, foster job creation and economic growth. [Ch. 1 Pg. 4]

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan includes prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense.

The reserve has been set at \$0.6 billion in 2017–18, \$0.6 billion in 2018–19, reflecting continued prudence while recognizing the confidence arising from a strengthening Ontario economy and a restoring of fiscal balance in Ontario. [Ch. 6B, Pg. 9 & 22]

The government has continued to demonstrate strong fiscal management, having held average annual growth in program spending to 1.8 per cent between 2011–12 and 2015–16. It will manage risks prudently to ensure it can continue to invest in the economy and people, while maintaining balanced budgets. [Ch. 6B, Pg. 21]

Q: How has the government lowered the deficit from \$3.5 billion in 2015-16 to \$1.5 billion in 2016-17? What programs were cut?

A: Program expense has actually increased by \$2.6 billion over the past year (from 2015-16 actuals to 2016-17 interim projections). This includes an additional \$1.2 billion dollars in new healthcare investments, \$0.7 billion in investments in education and \$0.6 billion in new investments children and social services.

The improvement in the deficit between 2015-16 and 2016-17 is driven by an increase in revenue that was larger than the increase in total expense.

Between 2015-16 actuals and 2016-17 interim projections:

- Revenue increased by \$4.9 billion, or 3.8% [from \$128.4 billion in 2015-16 to \$133.2 billion for 2016-17 at interim].
- Total expense increased by \$2.9 billion, or 2.2% [from \$131.9 billion in 2016-17 to \$134.8 billion for 2016-17 at interim].

Pension Adjustment

Q: Is the government beating its deficit target due to changing its interpretation of public sector accounting standards for jointly sponsored pension plans? Is the government planning on taking the other pension plans, HOOPP and CAAT, off the books also?

A: The Pension Asset Expert Advisory Panel released its independent advice and recommendations on the accounting treatment of pension assets in February.

The Panel recommended that the net pension assets for two jointly sponsored be recognized in the province's financial statements. As a result, the treatment of net pension assets of the Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan aligns with the treatment originally included in the 2016 Budget plan, and is consistent with how accounting standards have been applied to these plans since 2001.

The panel issued a supplemental report that provided advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

The projected overachievement on the deficit target for 2016–17 is mainly due to total revenue projected to be \$2.6 billion above the 2016 Budget plan, largely because of strong performance in taxation revenues driven by a growing economy.

It is also the result of \$0.5 billion in lower interest on debt expense, primarily as a result of lower-than-forecast interest rates, along with effective and efficient debt management.

Pension Adjustment

Q: Is the government beating its deficit target due to changing its interpretation of public sector accounting standards for jointly sponsored pension plans? Is the government planning on taking the other pension plans, HOOPP and CAAT, off the books also?

A: No. The Pension Asset Expert Advisory Panel released its independent advice and recommendations on the accounting treatment of pension assets in February.

The Panel recommended that the jointly sponsored net pension assets be recognized in the province's financial statements. As a result, the treatment of net pension assets the Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan aligns with the treatment originally included in the 2016 Budget plan, and is consistent with how accounting standards have been applied to these plans over the past 15 years.

The panel is expected to issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

The projected overachievement on the deficit target for 2016–17 is mainly due to total revenue projected to be \$2.6 billion above the 2016 Budget plan, largely because of strong performance in taxation revenues driven by a growing economy.

It is also the result of \$0.5 billion in lower interest on debt expense, primarily as a result of lower-than-forecast interest rates, along with effective and efficient debt management.

Gaming Policy Branch

In-Year Revenue Changes

Q. What is the reason for the \$181M increase in the Ontario Lottery and Gaming Corporation's (OLG) 2016-17 Net Profit to the Province (NPP) forecasts when comparing Budget 2016 and Budget 2017?

A. In 2016-17, OLG's revenue in the lottery, slots and casinos, and resort casinos business lines were higher than previously forecasted in Budget 2016. This was mostly due to high lottery sales related to higher than anticipated high jackpot levels, which contributed to significantly higher lottery sales. In addition, good weather led to more casino visits, and the US-Canada currency exchange rate encouraged US visitors.

Budget 2017 provides an updated estimate, and the audited finals will be released as part of the province's Public Accounts later this year.

Net Profit to the Province

Q. When will OLG's NPP show the increases from OLG's modernization?

A. OLG's modernization initiative is well underway. OLG has successfully announced proponents for three of its eight gaming bundles, with the remaining five in progress.

OLG's NPP is already increasing because of revenue related to modernization. All gaming bundles will be transferred over to the private sector service providers by 2019-20, which is when material increases from modernization will start to be seen.

Q. Where is the information that was in the annual Budget 'Support from Gaming' chart? (eg. page 289 in the 2016 Budget)

A. Information about OLG's NPP is shown in the Fiscal Outlook chapter's "Revenue" table. OLG's NPP is paid into the Consolidated Revenue Fund (CRF) and allocated to government priorities such as health care, education, and infrastructure. Although the chart is no longer in the Budget papers, the programs previously listed in the chart (Amateur Athletes, Problem Gambling, and the Trillium Fund), continue to be funded.

Q. Will OLG's financial support of hospital funding go down in 2017-18?

A. OLG's NPP is paid into the CRF. Funding to the Ministry of Health and Long-Term Care is subsequently made from the CRF. Funding decisions on hospitals are made by the government and are not affected by fluctuations to OLG's NPP.

Further questions should be directed to the Minister of Health and Long-Term Care.

Alcohol Policy Branch

In-Year Revenue Changes

Q: What is the reason for the \$296M increase in the Liquor Control Board of Ontario's 2016-17 Net Income forecasts when comparing Budget 2016 and Budget 2017?

A: The majority of the increase results from the proceeds of the sale of the LCBO head office lands. On June 8, 2016, the government closed the sale on the lands in downtown Toronto. This increase reflects the recategorization from Sales and Rentals of the impact of the sale of LCBO's head office lands.

Economics Qs & As

Q: Why do forecasters believe Ontario will be among the provincial leaders in economic growth until at least 2018, outpacing the national average?

A: Ontario has been among the fastest growing provinces for the past three years.

Ontario will continue to benefit from solid U.S. and Canadian demand, a competitive Canadian dollar and low oil prices. These factors will help Ontario be among the provincial growth leaders over the next two years and outpace the Canadian average.

At the same time, economies in resource-rich provinces have been negatively affected by the low commodity price environment, with Alberta, Saskatchewan and Newfoundland and Labrador all experiencing recessionary conditions over the last two years. With private-sector economists expecting oil prices to rise only gradually over the next few years, the resource-based provinces are projected to record modestly improving economic growth.

Q: The forecast for real GDP is below the private sector average but your nominal GDP looks to be the same as the private-sector average. Doesn't this mean your nominal GDP forecast is too optimistic?

A: A nominal GDP forecast in line with the private-sector average is a balanced and reasonable measure for planning purposes. All three economic experts who reviewed the Ministry's economic assumptions found them to be reasonable.

In fact, over the last three years nominal GDP growth in Ontario has significantly outperformed expectations. Going forward, stronger global inflation, a rising

Canadian dollar and an upswing in commodity prices point to continued solid growth in Ontario nominal GDP.

In light of these factors, a planning assumption in line with the average of private-sector economists is a balanced and reasonable measure for planning purposes.

Q: Compensation of employees and corporate profits are growing faster than nominal GDP. Isn't this too optimistic?

A: The Ministry closely tracks private-sector forecasts to inform the government's planning assumptions. All three economic experts who reviewed the Ministry's economic assumptions found them to be reasonable.

Low unemployment, improving economic conditions in the rest of Canada and solid productivity growth should contribute to faster gains in employee compensation in Ontario. Consistent with this view, the average of private-sector forecasters also expects employee compensation to modestly outpace nominal GDP growth.

Corporate profits are challenging to forecast and there is a wide range of views among private-sector economists. Our projection is well within this range.

In light of these factors, our planning assumptions for employee compensation and corporate profits are reasonable for planning purposes.

Q: There is a great deal of uncertainty surrounding the global economic outlook. Why do you remain positive about Ontario's economic prospects?

A: Although global economic growth is projected to improve over the 2017-20 period, there are risks surrounding this outlook. Uncertainty about U.S. economic policy, as well as potential restrictions on global trade and migration could diminish productivity and business investment.

In general, the external environment remains supportive for the Ontario economy.

Growth in the U.S., our largest trading partner, is expected to remain solid over the next few years. Also, a competitive Canadian dollar will support export activity as will improving economic fortunes across the rest of Canada. Finally, Ontario is an oil-importing province which means consumers and businesses are still benefitting from low oil prices.

Prepared by: John Anania (416-325-0765)

Branch: Macroeconomics and Revenue Branch / Office of Economic Policy

Ontario Economic Outlook Details

Q: The Document states that the Province is developing business model options to modernize statistical services; can you advise what type of models the Province is considering?

A: The government is in the early stages of identifying and developing options that would provide the most value to Ontarians and ensure statistics are neutral, objective, accurate, and reliable. The province is taking a hard look at the government to see what it does well, and where it can improve; as well as looking outside the Ontario government to identify successful models that Ontario could learn from as it builds its own “made-in-Ontario” statistical and data management model.

Q: Is it true that the Ontario government hired a consultant to develop business model options for the establishment of a statistics entity?

A: Yes. The government hired a consultant to help it identify the strengths and opportunities for improvement within the Ontario government; and to develop recommendations to inform potential business model options. Working with the consultant allows the government to benefit from their expertise and their outside perspective, to inform development of a “made-in-Ontario” approach that builds on organizational capacity, knowledge, and skillsets already in the Ontario government.

Q: Why is Ontario the only province without an official statistics entity?

A: The Ontario Ministry of Finance provides leadership advice and analysis on the use of statistics and the province’s statistics policy, including responsibility over the *Statistics Act*. To date, the *Statistics Act* has enabled a decentralized approach to statistics within the province, allowing decision makers to rely on the knowledge and expertise within individual ministries to produce statistics connected to each ministry’s mandate. Recognizing the importance of data and statistics in modern society, Ontario is moving forward on enhancing how government collects, uses, and disseminates data. Understanding that accurate and credible statistics is critical for supporting evidence-based decision making and policy development, improving social outcomes, and fostering an innovative and dynamic business climate, the government is developing options for alternative business models for the collection, use, and dissemination of data.

Q: What will the cost be to set-up a statistics entity for the Province?

A: Business model options for an official statistics entity for the province are still being developed and costs will be considered as part of that process to deliver data and statistical services that are efficient and cost effective. The government will evaluate how to better serve the public by ensuring statistics help support the

development of policies, programs and services, to help create jobs, grow our economy, and help people in their everyday lives. By making an investment in modernizing and transforming the way we use data, Ontario we will provide better value for money by reducing burden and streamline government processes.

Q: How will a statistics entity ensure that my personal information is protected?

A: Protecting personal information is of the utmost importance to the government, which is why the government will work with the Information and Privacy Commissioner and other privacy experts to ensure that privacy by design is applied to whatever business model the government determines is the right model to meet Ontario's statistics needs.

Prepared by: Katrina Sehr (416-325-0887)

Branch: Statistics Integration Branch/Office of Economic Policy

Revenue Qs & As

Q: Land Transfer Tax revenue in 2016-17 is \$637 million higher than Plan. Are you expecting continued strength in the housing market?

A: The strong Ontario housing market in 2016 boosted the 2016–17 Land Transfer tax revenue to a record level. However, going forward, economists expect the pace of housing activity will grow at a more moderate rate. As a result, Land Transfer Tax (LTT) revenues are still projected to increase, at a slower rate than seen in the last year.

Q: In your 2016 Budget, you estimated carbon allowance proceeds to be \$478 million in 2016–17 fiscal year, but your 2017 Budget shows no revenue for this fiscal year. Can you explain why your projection changed?

A: The carbon allowance proceeds estimated at the time of the 2016 Budget was based on preliminary design of the cap and trade program and a preliminary forecast for emissions allowances with the expectation that this proceeds would be recognized in 2016-17.

While Ontario held its first carbon allowance auction in March 2017 and received \$472 million in proceeds, the proceeds from the first auction are being certified, settled and recorded in the 2017-18 fiscal year.

Medium-Term Revenue Outlook

Q: The growth in Taxation revenues appears aggressive. It is projected to increase on average by about \$5.0 billion, or 5.1% per year. What is the justification for this? Are you raising taxes?

A: There are no tax increases included in the forecast. Revenue growth is driven by the outlook for Ontario's economic growth. There is a modest increase due to ongoing revenue integrity efforts. Eliminating the Personal Income Tax tuition credit in order to support the reformed OSAP that will result in free tuition to more students, also boosts revenues slightly over the forecast period.

Q: The increase in taxation revenues in 17-18 and 18-19 above past Budgets appear optimistic. Why is it that projected revenues increase more (\$5.0B in 17-8, \$5.3B in 18-19) than the increase of \$3.2B in 16-17?

A: Projections in recent prior year budgets have been overly cautious and have significantly under-predicted revenue. For example, revenues for 2016-17 were \$3.2 billion higher than projected in the 2016 Budget. This year's revenue forecast is less cautious. It should be noted that the 2017 Budget does not introduce any major tax increases designed to boost revenues.

More on historical variance:

Over the past nine years, projected taxation revenue was, on average, 1.4 percentage points lower than actual with a range of -9.6 per cent to 5.5 per cent.

Q: Why does the relationship between the Corporations Tax (CT) base revenue growth and its underlying economic driver, net operating surplus of corporations, appear erratic? Specifically, why is CT base revenue growth higher than growth of net surplus of corporations in 2017-18, but lower in 2018-19 and 2019-20.

A: Generally, base revenue is projected to grow close to the growth in the net operating surplus of corporations. The growth rates of revenue and this driver are not the same each year due to various reasons, including:

- CT revenues are reported on fiscal year basis, while net operating surplus of corporations is reported on a calendar year basis.
- Some revenues included in the Corporations Tax outlook are projected using other economic drivers. For example, e.g., Insurance Premium Tax (IPT) is based on nominal GDP growth.

Technical detail:

Growth in CT base revenue for 2017-18 is higher than the growth in net operating surplus of corporations because unitary elasticity was not applied to 2016-17 due to caution. Had we applied the unitary elasticity to 2016-17, the 2017-18 base revenue growth would be consistent with growth in net operating surplus of corporations.

Q In the PIT Revenue Outlook table, why is the impact of measures so high, rising to \$0.4B in 2019-20?

A: This is mostly due to the elimination of the Tuition and Education Tax credits in 2016 Budget (\$335M in 2018-9) and the impact of some federal personal income tax measures that the Province automatically parallels under the Canada-Ontario Tax Collection Agreement.

Background Table – Breakdown of PIT Tax Measures:

\$ Millions	2017-18	2018-19	2019-20	2020-21
All Measures Pre-O2015B	8	25	73	142
2015 Federal Budget Measures (TFSA)	-45	-59	-73	-83
2015 Federal Budget Measures (RRIFs)	-1	-1	-1	0
2015 Trust and Estate Measure	40	40	40	40
SBD and Gross-up Rate, Ontario DTC of 4.286% in 2016	19	19	19	19
Lower TFSA limit	45	60	75	86
Elimination of Universal Child Care Benefit (UCCB)	-170	-170	-170	-170
Student Financial Assistance (elimination of tuition & education amounts)	144	333	398	465
2017 Federal Budget Measures (Total)	15	61	53	10
CPP Enhancement Impact	0	-10	-51	-99
Technical/Other Measures	15	15	15	15
Ontario revenue integrity measure	31	36	43	66
Caregiver tax credit	-8	-9	-9	-9
Total	92	340	412	481

Q: What is included in “Other Adjustments” of -\$0.2B in 2016-17 in the revenue outlook for Personal Income Tax (PIT)?

A: Other adjustments in 2016–17 reflect a one-time positive adjustment of \$0.3B to account for underestimation of PIT revenues in the Public Accounts of Ontario 2015–16. This is more than offset by a one-time negative adjustment of \$0.5B to account for the effect of potential tax planning by high-income individuals recognizing their income in the 2015 tax year, before the federal government’s 33 per cent tax rate on taxable income over \$200,000 took effect in 2016. This may have potentially raised revenues in 2015-16 and would lower them in 2016-17.

Q: Have you made any adjustments to the Personal Income Tax (PIT) revenue outlook to account for the effect of potential tax planning by high income individuals to avoid the new federal tax rate that came into effect in 2016?

A: Yes. Although at this point, there is no conclusive evidence to suggest that higher 2015 revenue from tax returns processed during 2016 was a result of tax planning, the PIT revenue forecast for 2016-17 includes a one-time downward adjustment of \$0.5B to exercise prudence in the forecast. We will have more definitive information as results of the tax returns processed for 2016 arrive.

Q: In the Sales Tax Revenue Outlook table, why is the Sales Tax revenue base projected to grow stronger at 6.9 per cent in 2017-18, while consumption expenditure is only expected to grow by 4.3 per cent?

A: A number of factors are expected to boost Sales Tax revenue growth above the growth in consumption expenditures, as was the case in 2016-17. This is largely due to the relative strength of the Ontario economy. Ontario's share of the revenue base is expected to rise again once the allocation formula is updated to 2016 economic data. Ontario's relatively strong housing market in 2016 is also expected to boost HST revenues in 2017-18.

Q: Can you explain why the LCBO's revenue increased by \$365 million in 2016-17 from 2015-16?

A: The increase in LCBO's net income mainly reflects the sale of LCBO's head office lands. In October 2016, net revenue gains of \$246M from the sale were dedicated to the Trillium Trust to help fund infrastructure investments in transit, transportation and other priority projects across the province. In addition, LCBO's higher projected net sales have also contributed to the increase in its net income.

Q: How are the impacts of the Hydro One IPO and 2016 Secondary Offering reported in this Budget? Where are these amounts recorded?

A: Net revenues from the 2015 Hydro One IPO and 2016 Secondary Offering are reflected in the revenue lines affected by these transactions – Hydro One net income under Government Business Enterprises, electricity payments in lieu of taxes and Sales and Rentals. However, projected net revenue net revenue impacts related to future transactions under the Province's asset optimization strategy are captured as a net number under Sales and Rentals in consideration of the commercial sensitivity of such transactions.

Q: What accounts for the increase in the federal infrastructure transfer of \$1.5 billion in 2017-18? Are you promised new funding from your federal cousins?

A: The increase in infrastructure revenue mainly reflects new federal funding for public transit projects and strategic investment funds for affordable housing, post-secondary education, and clean water and wastewater projects reported in 2016 Ontario Fall Economic Outlook and Fiscal Review.

Q: Revenue from Sales and Rentals has increased from \$2.0 billion to \$3.0 billion from 2016-17 to 2017-18. Can you please explain this jump?

A: The change in Sales and Rentals revenue reflects a number of items, which include the multi-year impacts of the Province's asset optimization strategy and higher revenues from some consolidated government agencies.

Q: What accounts for the decrease of \$0.2 billion in the combined net incomes of Ontario Power Generation Inc. (OPG), Hydro One Ltd. (HOL) and Brampton Distribution Holdco Inc. (BDH) in 2017-18 compared to 2016-17?

A: This decrease mainly reflects the impact of a provincial accounting consolidation adjustment of switching from US GAAP to International Financial Reporting Standards (IFRS) in reflecting the financial results of OPG, HOL and BDH in the province's financial statements.

Q: Why are revenues from Liquor Control Board of Ontario (LCBO) projected to decrease by \$184 million in 2017-18?

A: The decrease in LCBO's net income in 2017-18 is largely due to higher projected revenue in fiscal 2016-17 which incorporates the sale of LCBO's head office lands in 2016 as part of the government's asset optimization strategy.

Q: Why does income from Government Business Enterprises (GBEs) drop by \$0.4 billion in 2017-18, and then rise by \$0.8 billion in 2018-19?

A: The projected decline in income from GBEs in 2017-18 mainly reflect a one-time higher revenue from the LCBO in 2016-17, mainly from the recognition of the impact of the sale of LCBO's head office lands which was part of the Province's asset optimization strategy.

Higher overall projection during the medium term reflect ongoing growth in net income from all GBEs, while 2017-18 cautiously includes the estimated impact of a Provincial accounting consolidation adjustment related to switching from US GAAP to International Financial Reporting Standards (IFRS) in reporting the financial results of OPG, HOL and Brampton Distribution Holdco Inc..

Q: In your 2016 Budget, you estimated carbon allowance proceeds to be \$478 million in 2016-17 and \$1.9 and \$1.8 billion in 2017-18 and 2018-19 respectively. Now you have much lower numbers. What changed compared to the 2016 Budget forecast in terms of carbon allowance proceeds and why?

A: The carbon allowance proceeds estimated at the time of the 2016 Budget was based on preliminary design of the cap and trade program and a preliminary forecast for emissions allowances.

In Budget 2017, no proceeds are reported for fiscal 2016-17. While Ontario held its first carbon allowance auction in March 2017 and received \$472 million in proceeds, the proceeds from the first auction are being certified, settled and recorded in the 2017-18 fiscal year.

Projections for proceeds from auctions in 2017-18 and 2018-19 are also revised down reflecting more cautious assumptions in terms of the projected number of

allowances to be sold based on the average joint Western Climate Initiative market performance.

The projection for 2018-19 is also lower as there will be revenues from five auctions recognized in 2017-18, while going forward there will be four each fiscal year.

We will continue to monitor the performance of the auctions and revise our projection accordingly.

Q: Why does Non-Tax Revenue (NTR) drop significantly in 2018-19, and continue to drop in 2019-20?

A: Other Non-Tax revenue changes arise from a number of sources, for example, the Government's prior decision to remove Debt Retirement Charge from commercial, industrial and all other electricity users in 2018-19. It also reflects revisions to the government's multi-year asset optimization target to reflect the progress made so far.

Proceeds from carbon allowances are also projected to be lower in 2018-19 as there will be revenues from five auctions recognized in 2017-18, while going forward there will be four. We will continue to monitor the performance of the auctions and revise our projection accordingly.

Q: What does the government mean when it uses the term "recategorization" of impacts related to the Province's asset optimization strategy?

A: The term "recategorization" is used to refer to fiscal impacts related to the Province's asset optimization strategy that were previously consolidated in the Sales and Rentals line item that are now being unpacked to other revenue lines.

This allows for the Province to more accurately report the fiscal impacts of the transaction once the sale of an asset has occurred. There are no net fiscal impacts associated with "recategorization".

Q: Why did the government include all projected net revenues related to asset optimization in Sales and Rentals in the 2016 Budget?

A: In the *2016 Budget*, the government included all future projected net revenues related to asset optimization in the Sales and Rentals line item to ensure confidentiality on the specific timing of certain elements of the Province's asset optimization initiative to protect the commercial interests of the Province. As the sales of assets occur, the government recategorizes the impacts of the asset sales in their respective Budget line items.

Q: Other Non-Tax revenue is \$0.3 billion higher in 2017-18 and \$1.1 billion lower in 2018-19, compared to the 2016 Budget. Does this mean that you are accelerating the sale of assets?

A: Other non-tax revenues arise from a number of sources such as vehicle and driver registration fees; sales and rentals; other fees, licences and permits; and reimbursements of provincial expenditures in delivering certain services. Accordingly, revisions to the forecast of non-tax revenue are the result of various factors.

A key change is a re-profiling of proceeds from the first carbon allowance action in March 2016 from 2016-17 to 2017-18, as these proceeds are being certified, settled and recorded in the fiscal year 2017-18. Proceeds are also projected to be lower in 2018-19 and onward reflecting more cautious assumptions in terms of the projected number of allowances to be sold based on the average joint Western Climate Initiative market performance.

Other changes include revised projections for power supply contract recoveries, sales and rentals, miscellaneous revenues, and the net impact of the Province's multi-year asset optimization strategy.

Q: Why has GBE net income declined by \$0.5 billion since Budget 2016 in 2017-18 but is unchanged from Budget 2016 in 2018-19?

A: The decrease in 2017-18 is mainly due to projected lower combined net incomes of Hydro One Ltd. and the Ontario Power Generation Inc. Lower Hydro One net income, in part, reflects the recategorization of the fiscal impact of the 2016 Secondary Offering from Sales and Rentals in the 2016 Budget to Hydro One net income after the offering was completed. Lower OPG net income reflects, in part, a variance from gross margins assumed in the 2016 Budget, as well as the estimated impact of a Provincial accounting consolidation adjustment related to switching from US GAAP to International Financial Reporting Standards.

Only if pressed:

The variance year-by-year of the estimated impacts of the Provincial consolidation adjustment for IFRS is due to the higher degree of prudence included in the near term period, in 2016-17 and 2017-18. This adjustment will be assessed and carried forward, as necessary, in 2018-19 onward.

Q: The government is reporting that the decrease in Other Non-Tax revenue between 2016-17 and 2019-20 is partially driven by the projected net impact of the Province's planned asset optimization strategy. Is the government's strategy not generating revenues as expected?

A: As this is a multi-year strategy, there will be fluctuations in net revenue gains year by year.

Through the end of 2016-17, the government has made significant progress on its multi-year asset optimization initiative. And as disclosed in the 2015 Budget, most of the funds from the asset optimisation initiative to be dedicated to Moving Ontario Forward was projected to be generated in the first few years of the initiative.

The government remains on track to meet its target to dedicate \$5.7 billion to the Trillium Trust to help fund investments in transit, transportation and other priority infrastructure.

Prepared by: Stephen Taylor (416-325-0766)

Branch: Macroeconomics and Revenue Branch / Office of Economic Policy

Ontario Housing Outlook Qs & As

Q: Does the Land Transfer Tax (LTT) revenue forecast take into account a possible cooling of the market, in reaction to the new Non-Resident Speculation Tax, and other housing affordability measures? Is the LTT revenue forecast too optimistic given the possibility of a bursting of the housing bubble?

A: It is difficult to predict the impact the Non-Resident Speculation Tax and other housing measures will have on the Greater Golden Horseshoe (GGH) housing market. In general, private-sector economists expect housing activity to soften. As a result, Land Transfer Tax (LTT) revenues are still projected to increase, but at a slower pace than last year. In 2017-18 LTT is projected to grow 16.8 per cent which is roughly consistent with the combined projected growth in housing resales and resale prices of 12 per cent.

Q: Why isn't there a line item in your Details of Ontario's Finances table for the new Non-Resident Speculation Tax (NRST)? Why are you hiding a new tax grab?

A: The NRST is included as part of Land Transfer Tax (LTT) revenue.

We are assuming the NRST is revenue neutral. We are expecting the new NRST will achieve its objective of stabilizing Ontario's housing market.

We will monitor the impacts of the NRST and other new policies in our Fair Housing Plan very closely, and will continually revise our revenue forecast as new information becomes available.

Q: Minister Sousa has said that the Non-Resident Speculation Tax (NRST) will be revenue neutral...but Land Transfer Tax (LTT) revenue growth is projected to be faster than the combined growth for housing resales and resale price. Why is that?

A: LTT revenue growth is generally consistent with the combined growth for housing resales and resale price. It is slightly higher in 2017-18 (16.8%) than the combined growth in housing realises and prices projected for 2017 (12%) because the strength of the housing market late in 2016 is also expected to give a boost 2017-18 LTT revenues.

We will monitor the impacts of the Non-Resident Speculation Tax and other new policies in our Fair Housing Plan very closely, and will continually revise our revenue forecast as new information becomes available.

Q: British Columbia experienced a decline in their Property Transfer Tax after they introduced the Foreign Buyer's Tax. Why aren't you projecting a similar decline in the Land Transfer Tax, after announcing a similar 15% tax last week? Do you not expect the new housing measures to cool the market like it did in BC?

A: While the situation in British Columbia is still evolving, it is important to remember that the geography, economy and housing market in Vancouver are different from the Greater Golden Horseshoe.

We are expecting the new NRST will achieve its objective of dissuading non-resident speculators, and stabilizing Ontario's housing market. In general, private-sector economists expect housing activity to soften. As a result, Land Transfer Tax (LTT) revenues are still projected to increase, but at a slower pace than last year.

We will monitor the impacts of the Non-Resident Speculation Tax and other new policies in our Fair Housing Plan very closely, and will continually revise our revenue forecast as new information becomes available.

Prepared by: John Anania (416-325-0765)

Branch: Macroeconomics and Revenue Branch / Office of Economic Policy

CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

SECTION C - BORROWING AND DEBT MANAGEMENT

Reducing Ontario's Electricity Sector Stranded Debt

Q: What is the status of the OEFC's unfunded liability for 2016-17 as well as the plan to pay down the unfunded liability?

A: The unfunded liability is projected at \$3.5 billion as at March 31, 2017, a decrease of \$0.9 billion from March 31, 2016. This would be the thirteenth consecutive annual decline in the unfunded liability and \$16 billion below the \$19.4 billion level as at April 1, 1999 based on interim numbers.

The government expects that the unfunded liability will continue to decline following the broadening of ownership of Hydro One, as well as the end of the Debt Retirement Charge.

Q: The DRC will be eliminated as of April 1, 2018. Does that mean the residual stranded debt has been eliminated?

A: Prior to the *Budget Measures Act, 2015*, the *Electricity Act, 1998*, allowed for the DRC to be paid by consumers until the retirement of the residual stranded debt.

The estimated retirement of residual stranded debt was subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, and actual OEFC results over time, which depended on the financial performance of OPG, Hydro One, and municipal electric utilities, as well as other factors such as interest rates and electricity consumption.

The *Budget Measures Act, 2015* legislated a fixed end-date for the DRC of April 1, 2018, for commercial, industrial and all other users. The Act also removed references to "residual stranded debt" from the Act, as it no longer served a legislative purpose, and the regulation requiring an annual determination of the residual stranded debt was revoked as it was obsolete.

The government continues to dedicate revenues it receives from the electricity sector to the OEFC. All OEFC revenues, including the debt retirement charge (DRC) paid by certain electricity users up to March 31, 2018, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

As included in the *2014 Budget*, the government has removed the DRC cost from residential electricity users' electricity bills as of January 1, 2016.

Following the end of the DRC, OEFC will continue to receive other dedicated revenues, such as PILs, the amount equal to Hydro One Inc.'s provincial

corporate income taxes, and the gross revenue charge paid to the OEFC to help service and pay down its unfunded liability.

Ending the DRC – Residential and Business Users

Q: What will be the impact on the Ontario Electricity Financial Corporation / fiscal impact of removing the DRC cost from commercial, industrial and all other users electricity bills?

A: Removal of the DRC from commercial, industrial and other users' electricity bills on April 1, 2018 would reduce OEFC revenues by about \$620 million (and for the Province, on consolidation of OEFC in Public Accounts).

The earlier removal of the DRC from residential electricity bills in January 2016 reduced revenues by about \$330 million annually.

General Ontario Financing Authority

Q: Why was total long-term public borrowing \$27.0 billion in 2016–17 when the deficit is projected to be only \$1.5 billion?

A: In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, and funds the Province's investments in capital assets. Taking advantage of historically low interest rates and continuing demand for its debt, the Province has also pre-borrowed \$3.2 billion that will be used to reduce long-term public borrowing in 2017–18 by the same amount.

Q: Why is Cash and Cash equivalents (including pre-borrowing) projected to increase by \$4.2 billion in 2016–17 from the 2016 Budget forecast?

A: The Province took advantage of the historically low interest rate environment to borrow \$27.0 billion in 2016–17 including \$3.2 billion in pre-borrowing thereby increasing liquid reserves by \$4.2 billion. This increase will allow the Province to reduce its 2017–18 long term public borrowing by the amount of the pre-borrowing.

Q: Why does the Net Debt-to-GDP ratio decrease to 37.8 per cent at the end of fiscal 2016–17, compared to the 39.6 per cent forecast in the 2016 Budget?

A: The decrease in the Net Debt-to-GDP ratio is primarily due to the 2016–17 deficit forecast at \$2.8 billion less than what was forecast in the 2016 Budget as well as lower than forecast investments in capital assets, combined with a stronger GDP growth in 2016.

- Q: How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?**
- A: The balanced budget from 2017–18 onwards will limit increases in net debt to the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target. The Government is therefore projecting an interim net debt-to-GDP target of 35 per cent by 2023–24 with the 27 per cent net debt-to-GDP level to be attained by 2029–30.
- Q: The Province is projected to borrow \$26.4 billion in 2017–18. That's approximately \$1,871 for every person in Ontario. When will the Province eventually run into a debt wall and be forced to raise taxes and cut services?**
- A: There is strong demand for Ontario bonds in both the domestic and international markets. The Province successfully completed its 2016–17 borrowing program including \$3.2 billion in pre-borrowing for a total of \$27 billion. We expect that the projected balanced budgets, liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2017–18 borrowing program.
- Q: Why do debt maturities fluctuate? Is this pattern consistent with the OFA's goal of a smooth debt maturity profile?**
- A: While the OFA aims for a smooth debt maturity profile, market conditions such as investor demand and the cost of borrowing in different terms result in fluctuations in debt maturities.
- Q: Has it been difficult to complete the Province's borrowing program?**
- A: The Province continues to have steady access to both domestic and international bond markets. The Province successfully completed its 2016–17 borrowing program including pre-borrowing of \$3.2 billion for a total of \$27 billion. Prior to the usual cessation of the borrowing program before release of the 2017 Budget, the Province was able to borrow \$0.6 billion of its \$26.4 billion borrowing requirement for 2017–18.

Q: What is the difference between total debt, net debt and accumulated deficit?

A: Total debt represents all borrowing.

Net debt is total debt minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and used lines of credit represent total debt. Total debt is partially offset by money the family has in the bank, in RRSPs and in RESPs — the difference between the first and the three latter items represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q: How has the reversal of the Pension adjustment from Public Accounts affected Net Debt?

A: The 2017 Budget, consistent with the recommendations of the Government's Expert Panel, reverses the \$10.7 billion pension adjustment included in the 2015–16 Public Accounts thereby reducing net debt.

Q: Is the Government still on track to meet the 27 per cent net debt to GDP threshold?

A: Yes. Current projections anticipate that net debt-to-GDP will reach the interim target of 35 per cent in 2023–24 and the 27 per cent threshold in 2029–30. The first step in returning to a 27 per cent net debt-to-GDP ratio are the balanced budgets from 2017–18 onwards.

Q: What does non-cash adjustments of \$6.7 billion in 2017–18 represent?

A: Non-cash adjustments convert accounting accruals into cash requirements. Cash and accruals primarily differ due to accrued expenses that do not result in a cash outlay. These include the reserve of \$0.6 billion, \$0.5 billion in grants that forgive existing student loans and \$3.5 billion in Alternative Financing Procurements (AFPs) funded by third parties, partly offset by substantial completion payments to be made in 2017–18 for prior AFP projects. Another significant adjustment is amortization that is currently over \$5.5 billion but is partly offset by general timing adjustments that always arise between the Province's inflows and outflows on a cash versus accrual basis. A notable example of the latter is the variance between the net incomes earned by Government Business Enterprises and the dividends they pay to the Province.

Q: What is the status of Ontario's Green Bond program?

A: The Province remains committed to the Green Bond market, and expects to continue to access it on an annual basis. To date, Ontario has issued three Canadian dollar Green Bonds.

In October 2014, Ontario successfully launched a Green Bond program, with an inaugural global 4-year Canadian dollar bond of \$500 million and in January 2016, Ontario launched a second global 7-year Canadian dollar bond of \$750 million. The Province issued its third global 6-year Canadian dollar Green Bond of \$800 million in January 2017. To date, Green Bond financing amounts to \$2.05 billion, with up to \$1.77 billion allocated to Metrolinx for clean transportation projects.

Q: Why is the projected Short-Term Borrowing decreased by \$1 billion from the 2016 Budget in 2016–17?

A: The Province took advantage of the historically low long-term interest rates and elected to do more long-term borrowing instead of short-term.

Q: Why did the Province decide to pre-borrow \$3.2 billion in 2016–17?

A: The Province took advantage of lower borrowing requirements and the historically low interest rate environment to pre-borrow \$3.2 billion in 2016-17. This increase will allow the Province to reduce its 2017–18 long term public borrowing requirement by the same amount.

Q: Why is there an increase in Cash and Cash Equivalents of \$6 billion from the 2016 Budget in 2017–18?

A: Coming out of the financial crisis, the Province began a strategy of creating large, liquid 10- and 30-year benchmark domestic bond issues in 2009–10 in response to investor demand. This strategy has been very successful and continues to lower Ontario's borrowing costs and enhance the Province's access to capital. However, as a result of these large bond issues, the Province will have large cash outflows on single days commencing in 2019–20, rather than having maturities spread more evenly through the year. In anticipation of the need for cash reserves to meet these requirements for large outflows on a single day, the Province began building cash reserves in 2016–17, and will continue to increase these reserves in 2017–18.

Q: What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A: Liquid reserves are cash and temporary investments that can easily be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge collateral. Although the pledged collateral is technically owned by the Province, it is deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Q: Why did the forecast of debt maturities in 2016–17 decrease by \$0.5 billion since the time of the Budget?

A: The decrease is a result of debt extensions and FX revaluations.

Interest on Debt (IOD)

Q: What is the impact on IOD of a \$1.0 billion increase to the deficit?

A: The 2017–18 impact is forecast to be approximately \$30 million.

Q: What is the impact on IOD of a one percentage point change in interest rates?

A: The 2017–18 impact is forecast to be approximately \$300 million.

Q: What is your forecast interest rate for the IOD forecast in the 2017 Budget?

A: The forecast ten-year interest rates are 3.0 per cent for 2017-18 and 3.6 per cent for 2018-19, which is respectively 75 and 114 basis points lower when compared to the forecast in the 2016 Budget for 2017–18 and 2018–19.

For 2019–20, the interest rate forecast is at 4.2 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used for the last number of years.

Q: Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A: In 2017–18 Ontario achieved its realistic plan to balance its budget while investments are made in the priorities of Ontario families — health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in historically low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 25 fiscal years from 1991–92 to 2015–16, and is projected to remain low over the forecast horizon to 2019–20.

Credit Ratings

Q: What are the Province's current credit ratings?

A: The Province is rated:

	<u>Long-Term</u>	<u>Short-Term</u>
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+ (UCO)
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

UCO - Under Criteria Observation

Q: Why did S&P Place Ontario's Short-term Rating Under Criteria Observation?

A: Ontario short-term debt rating of A-1+ from S&P has been placed Under Criteria Observation (UCO) reflecting S&P's recently released "Revised methodology for Linking Short-term and Long-term Ratings".

Ontario's short-term borrowing costs are expected to be unaffected as this simply reflects a change in their methodology rather than any change in the quality of Ontario's credit.

Q: How will the credit rating agencies respond to the 2017 Budget?

A: Ontario currently maintains a double-A rating with three of its four credit rating agencies. Ontario continues to outperform its deficit projections and is projecting a balanced budget in 2017–18 and for the forecast horizon. As well, Ontario's net debt-to-GDP ratio is improving. These are all positive trends for Ontario's credit rating.

We continue to update the rating agencies on a regular basis on economic and fiscal developments and plan to meet with them again following the 2017 Budget.

Q: What impact did Moody's removal of the negative outlook have on your borrowing costs?

A: Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This, in part may have, reflected Moody's decision to upgrade their outlook for Ontario's credit rating. As well, the other three rating agencies confirmed Ontario's credit rating reflecting their confidence in our plan to eliminate the deficit.

Effective Management of Debt

Q: Why is it important to manage the growth in debt?

A: An uncontrolled increase in net debt would result in increased interest costs. These interest costs could squeeze the overall amount of funding available for future healthcare, education and social programs. The balanced budgets from 2017–18 onwards limit the increase in net debt to the net funding required for investments in capital assets. These investments will meet government priorities while also contributing to the economic growth of the Province. The Government is therefore projecting a return to the pre-recession net debt-to-GDP level of 27 per cent by 2029–30.

CHAPTER VII: A FAIR AND SUSTAINABLE TAX SYSTEM SECTION C - STRENGTHENING ONTARIO'S PROPERTY TAX AND ASSESSMENT SYSTEM

Strengthening the Governance of the Municipal Property Assessment Corporation

Q: What are the changes being proposed to the Municipal Property Assessment Corporation (MPAC) governance? Why is the Province proposing these changes?

A: The Province is proposing legislative amendments to change the number of directors who can serve on the MPAC Board from 15 to 13, and broaden the eligibility of a director to include former elected officials and former officers and municipal employees.

If passed, the composition of the board will consist of:

- Seven current or former municipal representatives,
- Four taxpayer representatives, and
- Two provincial representatives.

Reducing the maximum number of directors on the MPAC Board would align with best practices of board governance.

Directors who are retiring or are no longer an elected official or municipal employee could serve on the board. This would allow the MPAC Board to benefit from substantial expertise from a retired municipal official.

The Province is committed to continuing to improve the property assessment system. We will continue to consult on potential further changes and identify ways to strengthen MPAC's governance structure and support its objective of remaining accountable to stakeholders while maintaining excellence in assessment service delivery.

Modernizing Railway Right-of-Way Property Taxation

Q: The Government started reviewing the railway rights-of-way property taxation in 2015. What are the results of the review and what changes are being announced to the railway right-of-way property taxation system in the 2017 Document?

A: The *2016 Ontario Economic Outlook and Fiscal Review* announced the Province had initiated a review of the property taxation of railway rights-of-way in response to municipal requests.

As part of the review, the Province has held consultations with municipalities and representatives of the railway industry. Based on these consultations, the Province is taking action on three issues to address concerns related to indexation of rates, variation in rates and implications for shortline railways.

- Municipalities have expressed concerns that property tax rates on railway rights-of-way have not been updated since the late 1990s.
 - Beginning in 2017, property tax rates on railway rights-of-way will be updated to reflect the average annual percentage change in taxes on commercial properties. This means that municipal property tax rates will increase by approximately \$6 per acre for 2017.
- Municipalities have also expressed concerns about the significant variation in railway rights-of-way property tax rates across the province.
 - The Province will begin to address rate inequities by adjusting the lowest property tax rates on railway rights-of-way to a minimum of \$80 per acre in 2017. Currently, the lowest rate is approximately \$35 per acre.
- The railway industry expressed concerns about the impacts of potential property tax increases on shortline railways.
 - The Province recognizes the challenges faced by shortline railways and will take this concern into account when setting rates.

For 2018 and future years, the government will continue to adjust rates to address these key issues. The Province is committed to modernizing the property taxation of railway rights-of-way and remains open to further stakeholder input.

Encouraging Small-Scale Agri-Food Business on Farms

Q: What is the government doing to encourage small-scale agri-food businesses on farms?

A: The Province is introducing a legislative framework that would provide municipalities with flexibility to reduce property tax rates for small-scale value-added and commercial activities on farms.

Currently, these types of activities on farms are taxed at industrial or commercial rates. The government heard from the agriculture sector that property tax increases relating to small-scale on-farm agricultural processing and manufacturing can be a disincentive for some farmers to expand and diversify their operations.

The proposed legislative framework would allow municipalities to tax a portion of the assessment attributable to on-farm value-added or commercial activity at a reduced rate.

Building a strong rural economy includes providing farmers with the support they need to engage in small-scale value-added activities as part of their farm operation. We appreciate the importance of encouraging emerging innovations in the agriculture sector.

Moving Forward with Provincial Land Tax (PLT) Reform

Q: What changes are being announced to PLT in the 2017 Document?

A: The 2017 Document reaffirms the government's commitment to moving forward with PLT reform and establishing a more equitable and modern PLT system.

The government remains committed to working with northerners to make ongoing improvements and further modernizing the PLT system.

Ensuring the Ongoing Integrity of Property Tax Revenue

Q: The Budget states "...ensuring the ongoing integrity of education property tax revenues". What does this mean?

A: A technical adjustment to the provincially prescribed notional property tax rate calculation was announced in the 2016 Ontario Budget to ensure municipalities and the Province are able to address any unintended effects due to specific in-year property assessment changes, such as assessment appeal losses.

Consistent with the announcement in the 2016 Budget, the Province is maintaining the adjustment to education property tax rates for 2017 to support the

ongoing integrity of education property tax revenues, which help fund Ontario's elementary and secondary schools. Going forward, the Province will continue to monitor and review education property taxes to ensure that these taxes make an appropriate contribution to education funding.

AMENDMENTS TO SECTION 28 OF THE FINANCIAL ADMINISTRATION ACT (FAA)

Q: What is section 28 of the Financial Administration Act (FAA), and why is it needed?

A: Section 28 of the FAA helps the government ensure continued oversight of contingent liabilities, which is important in managing risks to the fiscal plan. Section 28 states that despite any other Act, a ministry or public entity shall not enter into any financial arrangement, financial commitment, guarantee, indemnity or similar transaction that would increase, directly or indirectly, the indebtedness or contingent liabilities of Ontario, or seek the approval of the Lieutenant Governor in Council (LGIC) to enter into any such transaction, without the prior written approval of the Minister of Finance.

- The powers under section 28 of the FAA are currently shared between the Minister of Finance and the President of the Treasury Board.

Q: Why is the government proposing amendments to section 28 of the FAA?

A: Amendments to section 28 of the FAA are being proposed to provide greater clarity and certainty to the application of section 28 to Ontario public entities.

Tobacco

Supporting Smoke-Free Ontario

Q: What changes are being made to the tobacco tax rate?

A: To support the Smoke-Free Ontario Strategy, effective 12:01 a.m. on April 28, Ontario's tobacco tax will increase from 15.475 cents to 16.475 cents per cigarette and per gram of tobacco product other than cigars.

This change is equivalent to a \$2 increase per carton of 200 cigarettes.

This increase will help support smoking cessation efforts under the strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada.

In addition, to accelerate Ontario's goal of having the lowest smoking rates in Canada, the tobacco tax rates will be further increased the equivalent of \$4 per carton in 2018 and an additional \$4 per carton in 2019.

Q: Why was the tobacco tax rate increased?

A: Tobacco taxes are a proven method of supporting smoking cessation and prevention efforts, particularly among youth. Increasing the tobacco tax rate in 2017 will help support smoking cessation efforts under the Smoke Free Ontario Strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada.

Q: How much revenue does the government expect the tobacco tax increase announced in the 2017 Budget to generate?

A: The government projects that the tobacco tax rate increase will generate up to \$40 million in new revenues in 17/18 growing to \$135 million in 18/19; and \$215 million in 19/20.

Q: Why is the government raising tobacco taxes, given the high prevalence of unregulated tobacco in Ontario?

A: Tobacco taxes are a proven method of discouraging tobacco use. This tobacco tax increase will help support smoking prevention and cessation efforts under the Smoke-Free Ontario Strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada.

To address the issue of unregulated tobacco, the government is engaging in a balanced approach of enforcement and partnership building initiatives. This has included the oversight of raw leaf tobacco, the establishment of the Contraband Tobacco Enforcement Team in partnership with the Ontario Provincial Police, and undertaking cross-designation pilot projects with Public Health Units where inspection officers will be cross-designated under both the Tobacco Tax Act and Smoke-Free Ontario Act.

The government also continues to engage First Nation communities and organizations across the province on the self-regulation of tobacco on-reserve and revenue-sharing, including supporting two First Nation self-regulation pilot projects.

Q: Why is the government making these tax rate increases when last year inflation-based increases were announced?

A: The government considers a number of important factors when deciding on tobacco tax policy. The tobacco tax increases announced in the 2017 Budget will further support the government's progress on encouraging smoking cessation and prevention, and will generate important new revenues for public services.

The government believes these important objectives will be better accomplished through larger tax increases rather than inflation-based increases.

In addition, we recognize that sales of untaxed tobacco products continues to be a challenge in Ontario, and we are strengthening various enforcement measures within the Tobacco Tax Act, and more importantly, continue to support discussions with First Nation communities on the self-regulation of tobacco on-reserve, and revenue-sharing.

Prepared by: Katherine Jin/Jeff Sweeting

Branch: Program Policy & Analytics ranch, Tax & Benefits Administration

Strengthening Ontario's Property Tax and Assessment System

Other Legislative Initiatives (MORA Amendment)

Q: Why is this necessary?

A: Collecting what is owed to the Province reduces the burden for all Ontarians and ensures everyone pays their fair share. Money recovered contributes to investment in key government priorities such as healthcare, education and infrastructure.

The Ministry of Finance is making changes to ensure all debtors are treated equally, regardless of debt source: tax arrears, overdue loans, fines, and other debts owing to the province. This will provide consistency to the way debtors are treated, improve efficiency and help increase recovery of money owing to Ontario.

The government currently has non-tax accounts receivable of approximately \$1.2 billion dollars. As of January 2017 nearly three quarters of the \$1.2 billion is over four years old. Without the ability to use enhanced tools, such as garnishments, warrants and liens, on existing non-tax debt, MOF would be limited in its capacity to improve upon previous collection results.

- A lien is an encumbrance (like a mortgage) registered against a debtors' property for an outstanding debt. It prevents the debtor from selling or remortgaging their property until the lien is paid.

Q: Which programs will be using these new enhanced collection tools?

A: The Ministry of Finance will not apply enhanced collection tools until a willing partner ministry agrees to the application of the tools to their non-tax debt portfolio, and makes the necessary changes (e.g., legislative and procedural) to enable the application of the tools. In addition, these actions must be authorized by the Ministry of Revenue Act regulation.

Q: How are these tools going to be used? Will these apply to debts that exist today?

A: Accounts that have outstanding arrears are referred to the Account Management and Collections Branch where collection activity is carried out in a progressive manner. This progressive action provides a client with ample opportunities to contact the ministry to make mutually agreeable payment arrangements. This approach is consistent with the actions that are taken for tax debts.

If authorized by regulation, where debtors fail to work with the Province to make arrangements to repay their existing non-tax debts the Ministry of Finance may have the option to use these tools.

The Private Collection Agencies under contract to the Ministry of Finance will not have access to these tools.

Prepared by: Michelle Lewis/Maureen Kelly

Branch: Accounts Management & Collections Branch, Tax & Benefits Administration

Facilitating Restructuring of USSC

Q: What is the government doing to facilitate the restructuring of US Steel Canada Inc. (USSC) under the *Companies' Creditors Arrangement Act*?

A: In the fall of 2016, the government introduced amendments to the *Pension Benefits Act* (PBA) to facilitate the restructuring of USSC by allowing the Lieutenant Governor in Council (LGIC), in limited circumstances, to make regulations exempting an employer such as USSC or a successor employer from the requirement to fund the pension on plan wind up.

The limited circumstances under which the LGIC may make such regulations are:

- if the employer has sought and obtained creditor protection from a court under the *Companies' Creditors Arrangement Act* before December 31, 2015; and
- the employer, successor employer, if any, and parties specified by regulation have entered into an agreement related to the employer's liability and the liability of the successor employer, if any, under the applicable PBA section.

The agreement must be approved by the Superintendent of Financial Services. The Superintendent may only approve the agreement if, after consulting with plan beneficiaries, the Superintendent has taken into account their interests and the agreement satisfies prescribed conditions or restrictions.

These amendments received Royal Assent on December 8, 2016.

The government is also proposing in its 2017 budget additional PBA amendments to facilitate the restructuring of USSC.

The proposed amendments would allow the LGIC, in limited circumstances, to make regulations to:

- Exempt a listed USSC Plan, USSC, or a successor employer from section of the PBA that deals with funding of pension plans;
- Exempt, USSC or any successor employer from section of the PBA in respect outstanding employer contributions deemed to be held in trust.

The limited circumstances under which the LGIC may make such regulations would be:

- USSC, the successor employer, if any, and the parties specified by regulation have entered into an agreement related to the application of the relevant PBA sections and
- The Superintendent has approved the agreement.

The Superintendent may only approve the agreement if, after consulting with plan beneficiaries, the Superintendent has taken into account their interests and the agreement satisfies prescribed conditions or restrictions.

The proposed amendments would also permit:

- the LGIC to make regulations deeming a listed USSC pension plan and its successor pension plan to be one pension plan for the purpose of the application of the PBGF guarantee. If such a regulation were to be made an employee would only be entitled to recover up to \$1000 per month from the PBGF between both pension plans if he or she was a member of both a USSC pension plan and its successor pension plan.
- the LGIC to make regulations exempting a USSC or a successor employer from paying assessments to the PBGF in respect of either the USSC plan or the successor pension plan where two pension plans are deemed by a regulation to be one pension plan.

The proposed amendments would also exempt a successor pension plan to one of the listed USSC plans from the limitation which provides that the payment of a pension under a pension plan that is established for less than five years of the date of wind up is not guaranteed by the PBGF.

Q. What is the Province doing to support pension and post-retirement benefits for Ontario employees and retirees affected by the restructuring of US Steel Canada (USSC)?

A. The Province recognizes the importance of the steel industry to the Province and the impact that industry has on thousands of employees, beneficiaries, retirees and their communities. As such, we have taken an active role working with all the affected stakeholders to complete a USSC restructuring that will save jobs, protect pensions and assist in providing post-employment benefits for current and former employees and their beneficiaries at USSC's Hamilton and Lake Erie facilities.

In September 2016, the Province signed a Memorandum of Understanding with Bedrock Industries Group, LLC (Bedrock) which has facilitated the proposed sale and restructuring of USSC.

On November 1, 2016 U.S. Steel Corporation announced that it agreed to proposed terms regarding the sale and transition of USSC to Bedrock.

On December 15, 2016, the Ontario Superior Court authorized USSC to move forward with its restructuring following the agreement with Bedrock. The MOU and the contemplated restructuring remain subject to many conditions, including final acceptance by USSC, ratified collective bargaining agreements with United Steelworkers Union Locals, agreements with certain stakeholders, government approval and the approval of the Court supervising USSC's CCAA proceeding.

The province remains committed to working with all stakeholders in the USSC restructuring process to achieve the best possible outcome for employees, pensioners, suppliers, customers and the long-term viability of the Canadian operations.

Prepared by: Vinod Armoogum (2-9332) / Alex Killoch (5-5724)

Branch: Broader Public Sector Pension Policy

Single-employer pension plan (SEPP) to jointly-sponsored pension plan (JSPP) mergers

Q: Some stakeholders have expressed concern that aspects of the current framework for single-employer pension plan (SEPP) to jointly-sponsored pension plan (JSPP) mergers are preventing these transactions from occurring. How will the government help facilitate SEPP to JSPP mergers?

A: The government continues to support plan sponsors who are interested in merging a SEPP with an existing JSPP. To provide greater flexibility in navigating the merger process, while still protecting plan beneficiaries, we have introduced a legislative amendment in the 2017 Budget Bill.

The amendment would provide SEPP administrators with an additional tool to help ensure that a transferring active member receives the full amount of the commuted value of their SEPP pension when transferring to a JSPP.

Specifically, the amendment would allow the SEPP administration to transfer a portion of that member's pension directly to the member, in addition to the amount transferred to the JSPP by the SEPP, so that the member, in total, receives the full value of their SEPP pension on a transfer.

Previously, if even a single active member failed to receive the same value in the JSPP as they held in the SEPP, the entire transaction could not proceed.

Investment Management Corporation of Ontario (IMCO)

Q: What amendments are you introducing to the IMCO Act and what is their purpose?

A: There are two amendments. The first amendment concerns the term limits of IMCO's Board of Directors. If passed by the Legislature, Directors will serve up to 9 years on the Board, as opposed to the lesser of 9 years or 3 terms of up to 3 years each. This is being done to provide greater flexibility in the appointment of directors unto the board.

The second amendment would allow the government to implement a new voting rights scheme that would be based on the assets that members have under the management of IMCO. Currently, each member of IMCO has one vote. The new scheme would provide appropriate input to all of IMCO members in the corporation's governance.

Q: Have you heard from many plans in the BPS about joining IMCO? How many plans could potentially participate in it?

A: There has been expression of interest from some sponsors. Once IMCO is fully up and running, it will be flexible and scalable enough to accommodate funds from all qualified organizations in the BPS that could benefit from its services.

It will be about two years from when IMCO becomes operational before it will be ready to accept other members. This is to allow for the corporation to be properly set up and enabled to undergo a managed expansion that will not disrupt its operations.

Q: How much in savings do you expect IMCO to provide for its members?

A: Participation in IMCO could improve the net investment returns on a member's investment fund. For OPB and WSIB, participation in IMCO could result in an improvement of 25 basis points annually. This could add up to an additional \$2 billion each in assets at the end of 15 years.

Prepared by: Vinod Armoogum (2-9332) / Alex Killoch (5-5724)

Branch: Broader Public Sector Pension Policy

Alcohol Policy Branch

Definition of a Microbrewer

Q. Why is the definition of a microbrewer changing to allow the microbrewers to brew for beer manufacturers?

A. Currently, a microbrewer must meet four tests to have their product qualify for the lower microbrewer charge:

- Its worldwide production of beer in the previous production year was not more than 50,000 hectolitres;
- It has not entered into any agreement or other arrangement in which a non-microbrewer manufactures beer for it;
- Any affiliate that manufactures beer is also a microbrewer; and
- It has not entered into an agreement or other arrangement in which it manufactures beer for a beer manufacturer that is not a microbrewer.

The proposed change to eliminate the last component of the definition will enable microbrewers to brew for any beer manufacturer, while ensuring that the lower charge only applies to microbrewers' products to help them grow and scale up.

The change will simplify the qualifying requirements that a microbrewer has to meet.

Q. If a microbrewer makes beer for a beer manufacturer, will the lower tax rate apply to the beer manufacturer?

A. No, the lower charge only applies to the beer of the microbrewer.

The change will simplify the qualifying requirements that a microbrewer has to meet.

Small Beer Manufacturers' Tax Credit

Q. Why didn't the government extend the phase-out range of the Small Beer Manufacturers' Tax Credit?

A. The ministry will meet with brewers to consider ways to address concerns regarding the phase-out range. To date, small brewers have benefitted from government changes that opened up ownership of the Beer Store, dedicated shelf space in authorized grocery stores and the Beer Store, and expanded retail opportunities. These changes have given small brewers the biggest boost in Ontario's history.

Taxation, Other Measures

Supporting Renewable Biodiesel in the Coloured Fuel Market

Q: What is biodiesel and what are its benefits?

A: "Biodiesel" means any liquid fuel that is derived entirely from biological matter that is available on either a renewable or recurring basis.

Biodiesel contributes less greenhouse gas emissions compared to diesel and provides occupational health and safety benefits since it is less flammable than diesel. In addition, studies have shown that biodiesel used in an occupational setting may have positive benefits for air quality compared to diesel.

Q: What is the difference between coloured and non-coloured biodiesel?

A: Coloured biodiesel is biodiesel that has been dyed red to the Province's dye specifications. Coloured biodiesel is tax-exempt and can only be used for specific purposes defined by the Province.

Q: What applications could coloured biodiesel be used for and who are the users?

A: Coloured biodiesel may be used in the same areas that regular coloured fuel is used, such as:

- heating or cooking;
- generating electricity;
- unlicensed commercial equipment, including farm, construction (including road-building machines but only until June 30, 2017, after which road building machines will no longer qualify to use coloured fuel), forestry and mining equipment; and
- operating commercial marine vehicles.

Q: Why are dyers of biodiesel given the exemption for fuel transportation requirements while dyers of regular fuel are not?

A: The Province is committed to addressing climate change, reducing greenhouse gas emissions and transitioning to a low-carbon economy. In support of these initiatives the Province is trying to provide opportunities for renewable alternatives to fossil fuels, such as biodiesel, to be more widely available. By removing the transportation requirement, this will enable more companies who are interested in producing coloured biodiesel products in the colour fuel market the opportunity to do so.

Q: When could companies start applying to become a registered dyer of biodiesel?

A: Companies can start applying once the proposed amendments have received Royal Assent.

Supporting Renewable Biodiesel in the Coloured Fuel Market – Technical Q&A

Q: How will a company qualify for the new category of registered dyers?

A: The applying company must intend on colouring only biodiesel and own or operate a facility that has been specified by the Minister, is capable of holding fuel in bulk for subsequent sale, and is capable of being used as a dye point.

In addition, those applying to become a registered dyer will need to provide a security deposit of at least \$1,000,000.

Section: Other Legislative Initiatives

Amendment to the *Fuel Tax Act* – Technical Q&A

Q: What is the purpose of enabling the Minister to prescribe alternative conditions for registered dyer applicants?

A: To allow the Province to explore whether modifications should be made to the fuel transportation requirements for registered dyers of coloured fuel, the proposed amendments include a provision enabling the Minister to prescribe alternative conditions for registered dyer applicants.

Section A: Taxation, Other Measures

Supporting Renewable Biodiesel in the Coloured Fuel Market

Q: What is biodiesel and what are its benefits?

A: “**Biodiesel**” means any liquid fuel that is derived entirely from biological matter that is available on either a renewable or recurring basis.

Biodiesel contributes less greenhouse gas emissions compared to diesel and provides occupational health and safety benefits since it is less flammable than diesel. In addition, studies have shown that biodiesel used in an occupational setting may have positive benefits for air quality compared to diesel.

Q: What is the difference between coloured and non-coloured biodiesel?

A: Coloured biodiesel is biodiesel that has been dyed red to the Province’s dye specifications. Coloured biodiesel is tax-exempt and can only be used for specific purposes defined by the Province.

Q: What applications could coloured biodiesel be used for and who are the users?

A: Coloured biodiesel may be used in the same areas that regular coloured fuel is used, such as:

- heating or cooking;
- generating electricity;
- unlicensed commercial equipment, including farm, construction (including road-building machines but only until June 30, 2017, after which road building machines will no longer qualify to use coloured fuel), forestry and mining equipment; and
- operating commercial marine vehicles.

Q: Why are dyers of biodiesel given the exemption for fuel transportation requirements while dyers of regular fuel are not?

A: The Province is committed to addressing climate change, reducing greenhouse gas emissions and transitioning to a low-carbon economy. In support of these initiatives the Province is trying to provide opportunities for renewable alternatives to fossil fuels, such as biodiesel, to be more widely available. By removing the transportation requirement, this will enable more companies who are interested in producing coloured biodiesel products in the colour fuel market the opportunity to do so.

Q: When could companies start applying to become a registered dyer of biodiesel?

A: Companies can start applying once the proposed amendments have received Royal Assent.

Supporting Renewable Biodiesel in the Coloured Fuel Market – Technical Q&A

Q: How will a company qualify for the new category of registered dyers?

A: The applying company must intend on colouring only biodiesel and own or operate a facility that has been specified by the Minister, is capable of holding fuel in bulk for subsequent sale, and is capable of being used as a dye point.

In addition, those applying to become a registered dyer will need to provide a security deposit of at least \$1,000,000.

Other Legislative Initiatives

Amendment to the Fuel Tax Act – Technical Q&A

Q: What is the purpose of enabling the Minister to prescribe alternative conditions for registered dyer applicants?

A: To allow the Province to explore whether modifications should be made to the fuel transportation requirements for registered dyers of coloured fuel, the proposed amendments include a provision enabling the Minister to prescribe alternative conditions for registered dyer applicants.

CHAPTER II: HELPING YOU AND YOUR FAMILY

Table of Contents

Fair Hydro Plan and Electricity Price Mitigation.....	1
Global Adjustment.....	13
Regulated Price Plan (RPP).....	17
Industrial Conservation Initiative	22
Development Charge Rebate.....	24
Vacant Homes Property Tax	26
Property Taxation of Vacant Land.....	28
Financial Services Regulatory Authority of Ontario	30
Regulation of Financial Planning.....	32
Regulation of Syndicated Mortgages in Ontario	34
Improving Auto Insurance	36
Fair Housing Plan – MOF Initiatives.....	39
Establishment of Ontario Seniors Public Transit Tax Credit.....	45
Ontario's Housing Market.....	46
Investing in People's Education and Skills	51

FAIR HYDRO PLAN AND ELECTRICITY PRICE MITIGATION

ISSUE

Starting this summer, Ontario's proposed Fair Hydro Plan (OFHP, or the Plan) would reduce electricity bills by 25 per cent on average for eligible households. Approximately 500,000 eligible small businesses and farms would also benefit from this reduction.

Low-income Ontarians and those living in eligible rural, remote or on-reserve First Nation communities would receive even greater reductions to their electricity bills.

Reference: Chapter II, Reducing Electricity Rates by 25 Per Cent

KEY FACTS

- Ontario's Fair Hydro Plan represents a significant system restructuring that will address long-standing policy challenges, ensure greater fairness.
- The proposed Plan takes actions to lower electricity bills by 25 per cent on average for a typical residential customer.
 - This includes the impact of the 8% rebate equivalent to the amount of the Provincial portion of the HST, that was in effect as of January 1, 2017.
- A number of important electricity support programs will now be funded by the Province rather than by ratepayers, which would reduce electricity costs for all consumers.
 - As part of these initiatives, people with low incomes and those living in rural communities would benefit from additional reductions to their electricity bills:
 - Enhancing the Ontario Electricity Support Program for low-income and vulnerable customers.
 - Enhancing the Rural or Remote Rate protection program to provide distribution charge relief to additional customers.
 - Establishing an Affordability Fund provides Local Distribution Companies (LDCs) with an additional tool to help vulnerable customers who do not qualify for low-income conservation programs. LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills.
 - The Province is also moving forward in having the First Nations On-Reserve Delivery Credit funded by provincial revenues.
 - These new measures will cost up to \$2.5 billion over the next three years.
- Ontario is further expanding the Industrial Conservation Initiative (ICI) program by reducing the eligibility threshold from one megawatt (MW) to 500 kilowatts (kW) for targeted manufacturing and industrial sectors, including greenhouses.

BACKGROUND

Significant investments in generation and conservation, including to support the decision to eliminate Ontario's use of coal, to build cleaner and renewable supply, are being funded in part through the Global Adjustment (GA). Between 2005 and 2015, Ontario invested more than \$50 billion in the electricity system, including more than \$35 billion in electricity generation, to ensure the system is clean and reliable.

On March 2, 2017, as part of the government's commitment to take action to reduce electricity bills for eligible families, farms and businesses, and ensure a clean, reliable and affordable electricity system for all Ontarians, the Province announced the proposed Ontario's Fair Hydro Plan, which would lower electricity bills by 25 per cent on average for residential consumers in the province. Many small businesses and farms would also benefit from the initiative, with additional relief for people with low incomes and those living in eligible rural communities.

If approved, the proposal will smooth the impacts of the GA, help the most vulnerable Ontarians through enhancements to electricity support programs through tax-based funding and work to bend the future cost curve of electricity.

GA Smoothing (or Deferring and Financing) Proposal

The government intends to introduce legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. The legislation would also outline the role for the Ontario Energy Board (OEB).

The majority of the province's electricity generators have 20-year contracts.

Many of these generators will be able to operate past their contract term, meaning they would still be available to generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers. Recovering the GA costs over a longer period would provide significant and immediate rate relief to ratepayers by spreading the cost of electricity investments to better reflect the expected lifecycle of the infrastructure that has been built.

In the early years, a portion of the costs recovered through the GA would be deferred, reducing pressure on today's electricity ratepayers. In later years, the deferred costs would be recovered from ratepayers.

Enhancing Social and Conservation Programs

To help Ontario's most vulnerable electricity consumers, the government intends to introduce legislation to enhance existing programs or introduce new initiatives. They will also become government-funded programs. The cost is estimated to be about \$2.5 billion over the next 3 years.

Ontario Electricity Support Program

On April 23, 2014, the Minister of Energy requested that the Ontario Energy Board (OEB) provide options for the design, development and implementation of a long-term, rate-payer funded program, which is intended to provide qualifying low-income electricity consumers with a credit on their electricity bills. On March 26, 2015, the Ministry of Energy announced that it was proposing to launch the Ontario Electricity Support Program (OESP), which would provide an ongoing credit directly on the bills of eligible low-income customers. In late October 2015, the OESP began accepting applications.

On March 2, 2017, the Ministry of Energy announced that the government is proposing to increase the available credits under the OESP by 50 per cent. It was also announced that OESP would now be funded by the government instead of by ratepayers.

Proposed Credit

Ontario is proposing increasing the OESP by 50 per cent, meaning that single, low-income consumers who receive the lowest credit amount would get an increase from \$30 to \$45 per month (\$540 per year, an increase of \$180), and the lowest credit for the enhanced scale would increase from \$45 to \$68 (\$816 per year, an increase of \$276).

The higher credits resulting from the announced 50 per cent increase would be refined in consultation with the Ontario Energy Board. The tables below show the proposed increased monthly credits. The household income amounts listed in the tables below are after tax, or net income.

Proposed OESP Monthly Credit Amounts								
Stepped Sliding Scale - Benefit Level		Household Size						
		1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons	7+ Persons
Income Bracket	< \$28,000	\$45	\$45	\$51	\$57	\$63	\$75	\$75
	\$28,001 - \$39,000	-	\$40	\$45	\$51	\$57	\$63	\$75
	\$39,001 - \$48,000	-	-	\$35	\$40	\$45	\$51	\$57
	\$48,001 - \$52,000	-	-	-	-	\$35	\$40	\$45

The OESP offers a larger credit to consumers whose homes are electrically heated, and those who rely on certain medical devices. Eligible First Nation and Métis households also qualify for a larger credit.

Proposed OESP Monthly Credit Amounts – Energy Intensive								
Stepped Sliding Scale - Benefit Level		Household Size						
		1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons	7+ Persons
Income Bracket	< \$28,000	\$68	\$68	\$75	\$83	\$90	\$113	\$113
	\$28,001 - \$39,000	-	\$60	\$68	\$75	\$83	\$90	\$113
	\$39,001 - \$48,000	-	-	\$52	\$60	\$68	\$75	\$83
	\$48,001 - \$52,000	-	-	-	-	\$52	\$60	\$68

The program is available to low-income customers who have accounts with electric utilities, unit sub-meter providers and retail energy companies.

Customers must apply to the program online or through a designated intake agency. Ontarians requiring assistance with the application process would be supported by local social agency partners. A tailored communications and application process has been developed to support First Nation communities.

- The Province is exploring automatic qualification for customers who are enrolled in other provincial low-income social programs

Most eligible customers need to re-apply every two years or whenever their personal circumstances change. For example, eligible customers would need to re-apply if they move or experience a change in income level. An extended program eligibility period of five years is applicable for any account holder aged 65 and over, or those receiving a Canada Pension Plan disability pension.

Ontario's Fair Hydro Plan announced that starting this summer, OESP will be funded by the government instead of ratepayers.

- Currently, OESP is ratepayer funded through a per kilowatt hour charge on electricity bills. The charge is currently set at \$0.0011 per kilowatt hour.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) is a rate subsidy provided to rural or remote residential customers because the cost of distributing power to rural and remote areas is much higher than for urban areas.

The RRRP is currently provided to approximately 350,000 rural residential customers in Ontario.

- On January 1, 2017, the annual funding cap for RRRP was increased from \$127 million to \$243.4 million. This increase was announced in September 2016.

- Currently, the RRRP program cost is recovered from all electricity customers in the province through a volumetric charge as required by O. Reg. 442/01, under the Ontario Energy Board Act, 1998.
- The RRRP charge for 2017 is 0.21 cents per kilowatt hour, increasing from the 2016 charge of 0.13 cents per kilowatt hour.

Ontario's Fair Hydro Plan announced that starting this summer, the Province would move to fund RRRP costs through the tax base.

As part of the Fair Hydro Plan, the Province announced that it will also expand the RRRP to provide distribution charge relief to additional customers served by LDCs with the highest rates. About 800,000 customers in total would benefit from the enhanced RRRP program.

- LDCs that could benefit from the expanded RRRP include Hydro One R2 and R1 rate classes (residential low and medium density areas, respectively), Northern Ontario Wires Inc., Lakeland Power Distribution Ltd. (Parry Sound service territory), Chapleau Public Utilities Corporation, Sioux Lookout Hydro Inc., InnPower Corporation, Atikokan Hydro Inc. and Algoma Power Inc. . The benefits would differ from LDC to LDC. Credit amounts would be set using the lowest cost distribution LDC from the group, as set by the Ontario Energy Board (OEB).

Affordability Fund

As part of the Fair Hydro Plan, the Province also announced that it will launch a new Affordability Fund. The Affordability Fund will assist electricity customers who cannot qualify for low-income conservation programs.

- The Affordability Fund provides LDCs with an additional tool to help customers in need. LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills.

The Province has established a Trust, with Hydro One and other electricity distributors administering the Affordability Fund.

The Province will pay for the Affordability Fund through provincial revenues. No legislative amendments are required for this fund.

First Nations On-Reserve Delivery Credit

In 2016, the Ontario Energy Board (OEB) engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy Network.

Following the engagement process the OEB recommended:

- Eliminating the delivery charge for all on-reserve First Nations residential customers and removing the monthly service charge for customers of licensed distributors which charge a bundled rate. The OEB estimates this would provide residential customers an average monthly benefit of \$85 (i.e., \$1,020 annually).

- Automatically qualifying on-reserve First Nations residential customers (approximately 21,500 customers).
- Enabling greater information sharing between distributors and Band Councils to identify all on-reserve First Nations customers.

The Province is also moving forward in having the First Nations On-Reserve Delivery Credit funded by provincial revenues.

Expanding the Industrial Conservation Initiative (ICI)

Expanding the eligibility threshold for the ICI would provide small manufacturers and industrials the opportunity to save on their electricity costs, while reducing the province's peak demand.

Under the expanded ICI, small manufacturers and industrials whose electricity demand is currently too low to qualify for ICI, would now be eligible for the expanded ICI if they wish to participate.

- Extending eligibility to small manufacturers and industrials with average monthly peak demand over 500 kilowatts.
- Targeting manufacturing sectors with NAICS codes commencing with the digits "31", "32", and "33", as well as NAICS code 1114, which includes greenhouses

Existing Electricity Price Mitigation Measures: Households

Ontario Rebate for Electricity Consumers

On October 19, 2016, Ontario passed legislation that will rebate an amount equal to the provincial portion of the HST from electricity bills for about five million electricity consumers, including:

- Residential consumers
- Multi-unit residential buildings and other facilities used as residential rental units such as long-term care homes and school residences
- Small businesses
- Farms

This eight per cent saving went into effect as of January 1, 2017 and is resulting in savings of about \$130 a year or \$11 per month for a typical Ontario residential consumer.

Rural or Remote Electricity Rate Protection program

The Rural or Remote Electricity Rate Protection (RRRP) program is designed to provide assistance to eligible customers located in rural or remote areas where the costs of providing electricity service to these customers greatly exceeds the costs of providing electricity to customers located elsewhere in the province of Ontario. The RRRP amount is a source of revenue for identified rural and remote electricity distributors to allow them

to reduce the amount they would otherwise have to charge some of their customers to distribute electricity.

Each year, the Board has approved a RRRP benefit amount to be collected from electricity distributors by the Independent Electricity System Operator (IESO). Electricity distributors in turn have a Board-approved retail RRRP charge to recover the RRRP amount paid to the IESO from their respective customers. Going forward, this charge would be eliminated, as the RRRP would be funded by the Province.

In September 2016, Ontario announced increased funding to the RRRP, which will the reduce electricity delivery costs for approximately 330,000 eligible rural customers located in rural areas .

Together, the 8 per cent rebate and the enhanced RRRP announced in September 2016 is providing eligible rural customers with a monthly savings of about 20 per cent, or \$45 per month, or \$540 a year.

End of the DRC

The *Electricity Act, 1998*, previously allowed for the debt retirement charge (DRC) to be paid until the Minister of Finance determines that the residual stranded debt is retired. The DRC has been set at 0.7 cents per kilowatt-hour on most electricity consumed in Ontario.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC cost from residential users' electricity bills as of January 1, 2016. This would save a typical residential user about \$70 per year and mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

Previously, the DRC end date was uncertain, as the estimated timing for residual stranded debt retirement is subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of OPG, Hydro One, and municipal electricity utilities (MEUs), as well as other factors such as interest rates and electricity consumption.

Existing Electricity Price Mitigation Measures: Businesses

Ontario Rebate for Electricity Consumers

On October 19, 2016, Ontario passed legislation that is rebating the amount equal to the provincial portion of the HST from electricity bills as of January 1, 2017 for about five million residential consumers, farms and small businesses. The amount of the rebate will not affect the amount of the input tax credits that small businesses and firms can claim.

A small business using 20,000 kilowatt-hours (kWh) per month could save an estimated \$270 per month, or about \$3,200 a year.

Industrial Conservation Initiative (ICI)

The Province implemented the ICI program in 2011. Initially, the ICI program has charged consumers with an average monthly peak demand greater than five megawatt (MW) a global adjustment rate proportional to their share of peak demand measured during the five highest-peak hours over a year-long period between May 1 and April 30. These consumers are defined as Class A consumers.

In 2015, Ontario expanded the ICI program to include consumers with average monthly peak demand greater than 3 MW in the manufacturing, mining, quarrying, oil/gas extraction, greenhouse, refrigerated warehousing or data processing sectors. The new Class A entrants had the opportunity to opt-in to the ICI program at their discretion and began receiving billing as Class A customers starting July 1, 2015.

There are about 300 participating consumers as of September 2016, who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Ontario has expanded the ICI program – with billing beginning July 1, 2017 – to include more than 1,000 newly eligible customers with monthly peak demand greater than 1 MW, down from the current threshold of 3 MW. In addition, sector restrictions would be removed and smaller institutional and commercial businesses would be eligible to participate.

ICI expansion supports both increased business competitiveness as well as the government's conservation goals by:

- Enhancing the efficiency and competitiveness of a larger number of industrial firms;
- Helping reduce emissions by promoting energy conservation during peak demand periods;
- Improving the reliability of the electricity system, especially during critical peak demand periods;
- Reducing the need for and costs associated with the building of new electricity power plants in the future to cope with periods of high demand;
- Reduce cost pressures on the electricity system by empowering more consumers to lower their electricity demand during peak periods; and
- Reduce electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

End of the DRC

The *Electricity Act, 1998*, previously allowed for the debt retirement charge (DRC) to be paid until the Minister of Finance determines that the residual stranded debt is retired. The DRC has been set at 0.7 cents per kilowatt-hour on most electricity consumed in Ontario.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC cost from residential users' electricity bills as January 1, 2016.

As a further step to mitigate electricity cost pressures for commercial, industrial and all other electricity users, the government introduced legislation, the *Budget Measures Act, 2015*, passed in December 2015, and the DRC for all other users will end on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users such as institutions and not-for-profits, and helps them plan their investment decisions more effectively.

Previously, the DRC end date was uncertain, as the estimated timing for residual stranded debt retirement is subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of OPG, Hydro One, and municipal electricity utilities (MEUs), as well as other factors such as interest rates and electricity consumption.

Northern Industrial Electricity Rate (NIER) Program

In *Budget 2015*, the government committed to ongoing support of northern industrial facilities beyond March 2016, with continued investment of up to \$120 million per year.

- This will support and retain large electricity users, as well as promote competitiveness and jobs in northern Ontario for the benefit of all Ontarians.

The NIER program was first announced in March 2010 for a three-year period, and in 2012 for an additional three-year term, to expire on March 31, 2016. The government has extended the existing NIER Program for one additional year (April 1, 2016 – March 31, 2017) to allow for additional time to thoroughly develop the ongoing program.

- Each of the participant's individual facility must consume a minimum of 50,000 MWh of electricity annually from the grid controlled by the Independent Electricity System Operator or a local distribution company.

- Companies eligible to participate in the NIER program must be classified as being within one of the following North American Industry Classification System industry sectors:
 - Mining and Oil and Gas Extraction, and
 - Manufacturing, with the exception of facilities that are designated as Sawmills and Wood Preservation which would not be eligible for the NIER program.
- Participants are required to develop and implement an energy management plan to manage their energy usage and reduce costs.
- Companies currently participating in the program in good standing would continue to participate in the extended program.
- New applicants would be accepted if funds are available up to the program cap of \$120 million per year on a first come, first serve basis.

Industrial Electricity Incentive (IEI)

In 2012, at the time of the government's decision to implement the IEI program, it was noted that since 2007, industrial electricity use in Ontario had decreased by approximately five terawatt-hours (TWh), primarily due to the world-wide economic downturn. As a result of the continued low electricity demand levels and increased generation capacity, Ontario has experienced intermittent periods of surplus generation since 2009. The intent of the IEI program is to assist in the management of electricity demand by encouraging increased industrial production. This is to be achieved through electricity-based price adjustments for eligible electricity consumption.

On November 1, 2012, the Minister of Energy directed the former Ontario Power Authority (OPA), now merged into the expanded Independent Electricity System Operator (IESO), to implement the IEI program. The IEI program was originally offered in two distinct streams:

- Stream 1, for up to 3 TWh, for industrial consumers willing to operate an industrial facility and undertake a large capital investment in technologies, products or processes that are not currently being used or produced in Ontario.
 - The application window closed on February 15, 2013.
- Stream 2, for up to 2 TWh, for existing industrial consumers in Ontario that will expand their existing, or build a new, industrial facility.
 - The application period for Stream 2 ended on June 10, 2013.
 - Stream 2 projects must consume at least 7,000 MWh of incremental electricity per year. The contracts end on December 31, 2019.

The new IEI stream 3 builds on the previous successful intakes. Eligibility was extended to other energy intensive sectors, such as greenhouses, data processing and refrigerated warehousing. Previously, eligibility was limited to the manufacturing and resource extraction (mining, quarrying, oil and gas) sectors. The requirement to bring incremental load online was extended from 2 to 3 years from contract signing.

Provided they achieve contract requirements, participants under Stream 2 and 3 pay the marginal cost of electricity (market price plus uplifts) on incremental electricity load as the IESO provides an offsetting payment related to the following eligible charges on the participant's electricity bill:

- Global Adjustment; transmission network charges; Debt Retirement Charge; Independent Electricity System Operator (IESO); other charges, such as the Rural and Remote Electricity Rate Protection charge and the Renewable Generation Connection Rate Protection charge
- Participants would continue to pay transmission connection charges and local distribution costs

The table below shows a selection of the successful IEI Stream 2 and 3 applicants.

Industrial Electricity Incentive Program – Examples of Successes

Stream	Applicant Name	Sector	Estimated New Jobs*	Location
Stream 2	Pembroke MDF	Pulp and Paper	140	Pembroke
Stream 2	ASW Steel	Steel	45	Welland
Stream 2	Atlantic Packaging Products	Pulp and Paper	80	Whitby
Stream 2	Resolute Forest Products	Pulp and Paper	78	Atikokan
Stream 3	White River Forest Product	Saw Mill	-	White River
Stream 3	FNX Mining Company	Copper and Nickel Or Mining	-	Whitefish
Stream 3	1382311 Ontario Ltd	Greenhouse	-	Leamington
Stream 3	Tweed Inc.	Pharmaceutical and medicine manufacturing	-	Smith Falls

*Note: Stream 3 does not have an employment requirement for program participation.

Industrial Accelerator Program (IAP)

The Industrial Accelerator Program (IAP) was designed to provide financial incentives to encourage investment in innovative process changes and equipment retrofits to reduce electricity consumption and help companies become more competitive. The IAP has been recently extended to December 31, 2020.

There are now four initiatives under the Industrial Accelerator Program:

1. Retrofit – Provides incentives for energy saving equipment such as lighting, motors, pumps, compressed air, unitary air conditioning, variable frequency drives, and control systems.
2. Process & Systems, including Small Capital Projects - provides financial incentives to encourage investment in innovative process changes and equipment retrofits. In exchange, participants will commit to deliver specific conservation targets within a specific time period and maintain these savings over the expected life of the project.
3. High Performance New Construction - provides design assistance and financial incentives for facilities that exceed typical electricity efficiency standards.
4. Energy Managers – a new initiative where facilities can gain access to experienced Energy Managers on a full-time basis. Energy Managers can help your facility develop an energy management strategy, identify and implement energy efficiency projects, and facilitate the Industrial Accelerator incentives application process.

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GLOBAL ADJUSTMENT

ISSUE

What is the Global Adjustment (GA) portion of the electricity bill?

Reference: Chapter II, Reducing Electricity Rates by 25 Per Cent

KEY FACTS

- The global adjustment component of the electricity bill covers part of the cost of the electricity commodity.
- The global adjustment is set monthly to reflect
 - The differences between the wholesale market price for electricity, known as Hourly Ontario Energy Price (HOEP) and:
 - Regulated rates for Ontario Power Generation's nuclear and hydroelectric generating stations
 - Payments for contracted rates paid to a number of generators across the province that have built or refurbished and operate electricity generation infrastructure such as gas-fired and renewable facilities (e.g., hydro, wind, solar) and nuclear.
 - The cost of delivering conservation programs
- The GA varies from month to month, responding to changes in the HOEP compared to contract prices. Generally speaking, when the HOEP is lower, the GA is higher to cover additional costs for the items referenced above. The GA rate is also impacted when new projects come into service, contract payments take effect or as a result of changes in Ontario electricity demand.
- To relieve the current burden on ratepayers and allocate costs more fairly, a portion of the GA is proposed to be refinanced under the Fair Hydro Plan.
- Refinancing the GA would provide significant and immediate rate relief by spreading the cost of electricity investments over 30 years to better reflect the expected lifecycle of infrastructure that has been built.
 - In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity ratepayers.
 - In later years, the cost of refinancing would be recovered from ratepayers.
 - Under current forecasts, the immediate reduction in the GA would be about \$2.5 billion per year on average over the first 10 years.

BACKGROUND

GA Refinancing

The majority of the province's electricity generators have 20-year contracts.

Many of these generators will be able to operate past their contract term, meaning they would still be available to generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers. Recovering the GA costs over a longer period would provide significant and immediate rate relief to ratepayers by spreading the cost of electricity investments to better reflect the expected lifecycle of the infrastructure that has been built.

In the early years, a portion of the costs recovered through the GA would be deferred, reducing pressure on today's electricity ratepayers. In later years, the deferred costs would be recovered from ratepayers.

Under forecasts provided at the time of the March 2nd announcement, the immediate reduction in the GA would be about \$2.5 billion per year on average over the first 10 years, with annual interest costs rising over the period as the deferred amount of GA accumulates, but annual interest costs not exceeding \$1.4 billion. Interest costs are estimates, subject to actual interest rates and GA deferral amounts.

Global Adjustment

The Global Adjustment (GA) is in place to recover the full supply cost of the electricity commodity and conservation and demand management programs, and it covers the difference between the hourly Ontario electricity price (HOEP) and the rates paid to regulated and contracted generators and for conservation and demand management programs.

The GA varies from month to month, responding to changes in both the HOEP and contract terms. Generally speaking, when the HOEP is lower, then the GA is higher in order to cover the full commodity and conservation and demand management costs mentioned above. The GA also changes when new projects come into service, contract payments take effect or as a result of changes in demand.

There are two classes of consumers defined by regulation. Class A is comprised of consumers eligible for the Industrial Conservation Initiative Program.

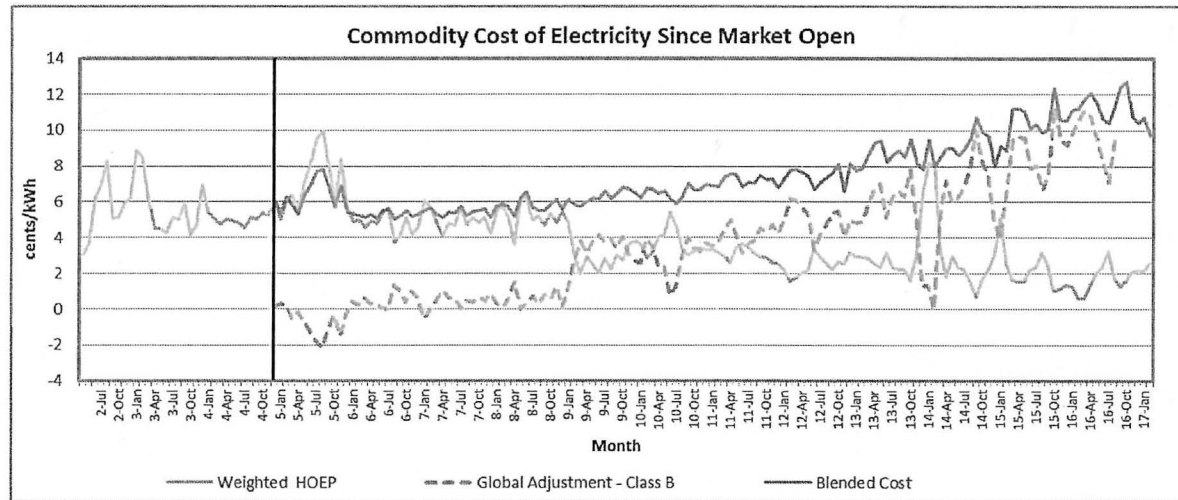
These Class A consumers have an average monthly hourly demand peak of:

- at least 5 MW and do not opt-out of the ICI program,
- at least 1 MW for customers in all industries and opt-in to the ICI program, or
- at least 0.5 MW for customers in certain industries and opt-in to the ICI program, based on the recent expansion of the ICI program.

Class B consumers comprise of all other consumers, including RPP consumers.

All customers pay the GA. As described above, Class A customers pay based on contribution to peak demand, and Class B customers pay based on a flat volumetric rate applied to their consumption.

The following chart provides a breakdown of the commodity cost of electricity into the HOEP and GA components for Class B consumer.



The following table provides the historical annual average HOEP vs. the GA, including the Class A GA expressed on a \$/MWh basis to illustrate the savings provided by the ICI for Class A consumers.

Year	Average Weighted HOEP (\$/MWh)	Global Adjustment (Classes A & B) (\$/MWh)	Class A - Global Adjustment (\$/MWh)
2016	16.62	87.81	52.53
2015	23.58	74.04	41.61
2014	36.00	49.54	26.77
2013	26.50	54.49	32.97
2012	24.10	45.87	27.83
2011	31.50	37.56	24.26
2010	37.90	27.18	-
2009	31.60	30.55	-
2008	51.70	6.12	-
2007	50.50	3.94	-
2006	48.80	4.36	-
2005	72.10	(7.44)	-
2004	52.20	-	-
2003	57.60	-	-
2002	55.90	-	-

2011 – 2015 *Class A Global Adjustment* calculated based on estimated Class A consumption and total Global Adjustment applied to Class A consumers.

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Branch: Electricity Finance Branch
Corporate and Electricity Finance Division
Ontario Financing Authority

REGULATED PRICE PLAN (RPP)

ISSUE

The Regulated Price Plan (RPP) was developed by the Ontario Energy Board to provide stable and predictable electricity pricing, encourage conservation and ensure the price paid by consumers for electricity better reflects the price paid to generators.

Reference: Chapter II, Reducing Electricity Rates by 25 Per Cent

KEY FACTS

- The OEB reviews commodity prices for Ontario's residential and eligible small business customers on the Regulated Price Plan (RPP) twice each year and resets prices as of May 1 and Nov. 1. These prices are shown in the electricity line of the bill as Time-of-Use pricing.
 - The electricity prices that the OEB sets are only paid by households and eligible small businesses who buy their electricity from their local utility.
 - Electricity commodity costs make up more than half the total of a typical household bill. Electricity prices are shown on one of the four line items on bills – the Electricity line.
 - The other lines of the bill are Delivery, Regulatory Charges and the Debt Retirement Charge (for non-residential consumers).
- Reviewing and setting prices every six months protects consumers from fluctuating commodity prices and provides stability and predictability on the electricity line of their bills. It also ensures supply costs are fully recovered so that the system continues to operate effectively.
- Nearly all of Ontario's almost 5 million residential and small business customers pay electricity prices established through the RPP.
- There are two RPP price structures:
 - one for consumers with eligible time-of-use (or "smart") meters who pay time-of-use (TOU) prices, who make up the majority of RPP consumers, and
 - one for consumers with conventional meters (Tiered Pricing).

BACKGROUND

Regulated Price Plan Eligibility

The Ontario Energy Board (OEB) has administered the Regulated Price Plan (RPP) to provide stable and predictable electricity pricing, encourage conservation and ensure the price consumers pay for electricity better reflects the price paid to generators.

Nearly five million residential and low-volume business consumers are eligible for the RPP.

According to the OEB, a small number of electricity customers – fewer than 1 in 10 – get their power from an electricity retailer rather than their local utility. Those customers pay the prices stated in their contract, regardless of adjustments to RPP prices.

Regulated Price Plan eligible consumers are outlined in O.Reg 95/05 of the *Ontario Energy Board Act, 1998*:

1. Low-volume consumers.*
2. A consumer who has a demand of 50 kilowatts or less.
3. A consumer who has an account with a distributor, if the account relates to,
 - I. a dwelling,
 - II. a property as defined in the Condominium Act, 1998,
 - III. a residential complex as defined in the Residential Tenancies Act, 2006, or
 - IV. a property that includes one or more dwellings and that is owned or leased by a co-operative as defined in the Co-operative Corporations Act.
4. A consumer who annually uses at least 150,000 but not more than 250,000 kilowatt hours of electricity.
5. A consumer who has an account with a distributor if the consumer,
 - i. carries on a business that is a farming business for the purposes of the Farm Registration and Farm Organizations Funding Act, 1993, and
 - ii. holds a valid registration number assigned under that Act or the consumer's obligation to file a farming business registration form was waived pursuant to an order made under subsection 22 (6) of that Act. O. Reg. 58/08, s. 1; O. Reg. 115/09, s. 1 (2); O. Reg. 494/10, s. 2 (2, 3).

* "low-volume consumer" means a consumer who annually uses less than 150,000 kilowatt hours of electricity or such other amount of electricity as is prescribed by the regulations

DISCLAIMER: This preliminary analysis and interpretation of legislation/regulation was carried forth by CEFD staff without the input from legal staff. Legal staff would need to be involved to ensure complete accuracy.

Almost all RPP-eligible consumers have smart meters, and most under the time-of-use (TOU) structure in the RPP. The remaining RPP-eligible consumers are billed under the RPP's tiered pricing structure or opt-out of the Regulated Price Plan and sign a contract with a retailer.

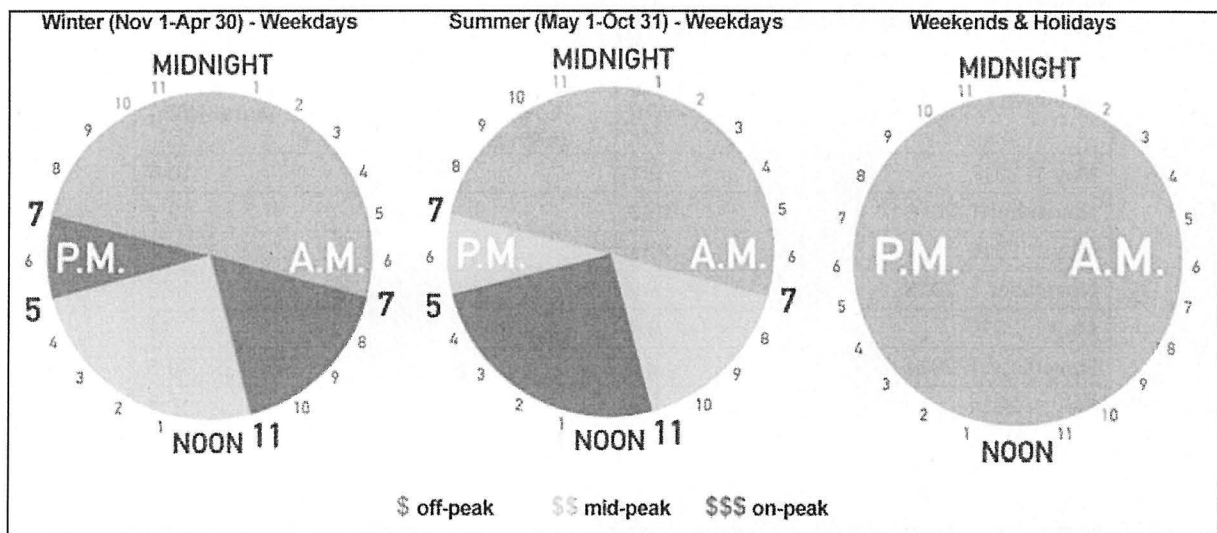
Time-of-use Pricing

Customers pay different prices depending on what time of day they use electricity.

There are three time-of-use periods – on-peak (the most costly), mid-peak (the middle range of the three prices) and off-peak (the least costly).

The table below outlines historical RPP Prices:

Time-of-Use (TOU) Prices (¢/kWh)			
	Off-Peak	Mid-Peak	On-Peak
May 1, 2017	7.7	9.1	8.7
November 1, 2016	8.7	13.2	18
May 1, 2016	8.7	13.2	18
November 1, 2015	8.3	12.8	17.5
May 1, 2015	8	12.2	16.1
November 1, 2014	7.7	11.4	14
May 1, 2014	7.5	11.2	13.5
November 1, 2013	7.2	10.9	12.9
May 1, 2013	6.7	10.4	12.4
November 1, 2012	6.3	9.9	11.8
May 1, 2012	6.5	10	11.7
November 1, 2011	6.2	9.2	10.8
May 1, 2011	5.9	8.9	10.7
November 1, 2010	5.1	8.1	9.9
May 1, 2010	5.3	8	9.9
November 1, 2009	4.4	8	9.3
May 1, 2009	4.2	7.6	9.1
November 1, 2008	4	7.2	8.8
May 1, 2008	2.7	7.3	9.3
November 1, 2007	3	7	8.7
May 1, 2007	3.2	7.2	9.2
November 1, 2006	3.4	7.1	9.7
May 1, 2006	3.5	7.5	10.5



Time-of-use prices are designed to encourage households and small businesses to use electricity during lower-cost time periods. This can in turn ease pressure on the provincial power system. It can also benefit the environment.

Ninety-seven per cent of customers on the Regulated Price Plan pay time-of-use prices.

The TOU prices in each period are set in combination to recover the actual costs of electricity.

Tiered Pricing

A small number of customers – fewer than 1 in 10 – are still on the old, tiered pricing system, known as tiered pricing.

Under tiered pricing, customers are charged two rates for electricity: a lower rate for electricity used up to a threshold amount and a second, higher rate for all additional use. These thresholds vary based on the rate setting period.

The following table outlines historical Tiered Prices:

Tiered Prices (¢/kWh)			
Effective Date	Lower Tier Price (¢ per kWh)	Residential Threshold for Lower Tier Price (kWh per month)	Higher Tier Price (¢ per kWh)
May 1, 2017	9.1	600	10.6
November 1, 2016	10.3	1,000	12.1
May 1, 2016	10.3	600	12.1
November 1, 2015	9.9	1,000	11.6
May 1, 2015	9.4	600	11
November 1, 2014	8.8	1,000	10.3
May 1, 2014	8.6	600	10.1
November 1, 2013	8.3	1,000	9.7
May 1, 2013	7.8	600	9.1
November 1, 2012	7.4	1,000	8.7
May 1, 2012	7.5	600	8.8
November 1, 2011	7.1	1,000	8.3
May 1, 2011	6.8	600	7.9
November 1, 2010	6.4	1,000	7.4
May 1, 2010	6.5	600	7.5
November 1, 2009	5.8	1,000	6.7
May 1, 2009	5.7	600	6.6
November 1, 2008	5.6	1,000	6.5
May 1, 2008	5	600	5.9
November 1, 2007	5	1,000	5.9
May 1, 2007	5.3	600	6.2
November 1, 2006	5.5	1,000	6.4
May 1, 2006	5.8	600	6.7
November 1, 2005	5	1,000	5.8
April 1, 2005	5	750	5.8

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Branch: Electricity Finance Branch
Corporate and Electricity Finance Division
Ontario Financing Authority

INDUSTRIAL CONSERVATION INITIATIVE

ISSUE

The Industrial Conservation Initiative (ICI) provides an incentive for electricity consumers to reduce electricity consumption during peak hours in order to reduce their bills thereby improving reliability and lowering total system costs.

Ontario's Fair Hydro Plan includes a further eligibility expansion of the ICI by lowering the threshold for participation by eligible firms to 500 kW from 1 MW for targeted manufacturing and industrial sectors, including greenhouses.

Reference: Chapter 2, Reducing Electricity Costs for Businesses Chapter 3, Supporting Ontario's Manufacturing Sector

KEY FACTS

- The Industrial Conservation Initiative (ICI) was announced by the Government of Ontario in 2010 to apply to customers with a peak demand greater than 5 megawatts (MW), effective January 1, 2011.
- The government subsequently expanded the Industrial Conservation Initiative (ICI) by lowering the threshold for participation from five MW to three MW, effective July 2015, thereby increasing the number of Ontario businesses eligible to participate in the ICI.
 - The ICI encourages large electricity users, including those in northern Ontario, to reduce electricity costs by lowering electricity consumption during peak hours.
 - Under the 3 MW threshold, there were about 300 participating consumers that collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.
- In September 2016, the government announced a proposal to expand ICI eligibility to customers with monthly peak demand greater than one MW and drop sectoral restrictions to allow a further 1,000 industrial and commercial businesses and institutions to participate in the ICI.
 - The regulation to expand the eligibility was in effect starting January 1, 2017 with billing beginning July 1, 2017, for those that opt-in by June 15, 2017.
- On March 2, 2017, the government announced the proposed Fair Hydro Plan, which includes a targeted further expansion of the eligibility for the ICI to more small and medium manufacturing consumers (i.e., in sectors with NAICS codes commencing with the digits "31", "32", and "33" covering manufacturing sectors, as well as NAICS code 1114, which includes greenhouses), by lowering the demand threshold to 500 kW.
 - The regulation to expand the eligibility was in effect starting April 13, 2017, with the expanded eligible entities required to choose whether to opt-in by June 15, 2017, for billing to begin for the period on or after July 1, 2017.

BACKGROUND

Customers who participate in the Industrial Conservation Initiative (ICI), referred to as Class A, are charged Global Adjustment on the basis of their share of the total system demand during the highest five peak hours of the year.

Customers with an average peak demand of above 1 MW and up to and including 5 MW will be informed by their distributor, or the IESO if they are transmission-connected, before May 31 each year if they are eligible. These customers must opt in by June 15 of each year to participate in ICI. They will then be charged as Class A customers for the adjustment period starting on July 1.

Customers with an average peak demand above 5 MW automatically qualify as Class A customers. These customers must opt out by June 15 of each year if they choose not to participate in ICI.

The ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. By reducing the province's peak demand, ICI has the added benefit of deferring the need to build peaking generation.

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Branch: Electricity Finance Branch, Corporate and Electricity Finance Division

DEVELOPMENT CHARGE REBATE

ISSUE

The government is proposing a new program to rebate development charges for new multi-residential rental apartment buildings.

Reference: Chapter II, Housing Affordability

KEY FACTS

- Ontario is taking action to make housing more affordable for homebuyers and renters.
- The government is introducing the Fair Housing Plan – a comprehensive set of measures that would, if passed, help more people find an affordable place to call home, while bringing stability to the real estate market.
- An important component of this Plan is to encourage the development of new purpose-built multi-residential rental apartment buildings.
- In support of this plan, the government is proposing a new targeted, \$125 million, five-year program to rebate a portion of development charges for new multi-residential rental apartment buildings.
- The new program would be scoped to target projects in those communities that are most in need of new purpose-built rental housing and that would not have proceeded in the absence of this incentive.

BACKGROUND

Context

- Development charges are upfront fees levied by municipalities and school boards that can represent a significant portion of construction costs.
 - Some developers have suggested that these charges can be a barrier to the development of new purpose-built multi-residential rental housing.
- In the 2016 Economic Outlook and Fiscal Review, the Province announced a review of the property taxation of multi-residential apartment buildings to improve housing affordability in the rental market. The proposed development charge rebate program is an early outcome from that review.

Proposal

- To encourage the development of new purpose-built multi-residential rental apartment buildings, the government is proposing a new targeted, \$125 million,

five-year program to rebate a portion of development charges for new multi-residential rental apartment buildings.

- The new program would be scoped to target projects in those communities that are most in need of new purpose-built rental housing and that would not have proceeded in the absence of this incentive.
- This program would be provided as an optional tool for municipalities to encourage new multi-residential development in their communities.
 - Municipalities who opt to participate would help tailor the design of the program to meet the needs of their communities.
 - For example, eligible projects could include those that meet key criteria such as affordability and providing an appropriate mix of unit types.
- The rebate program would not reduce this important source of revenue for funding infrastructure. Municipalities and school boards will still collect the development charges and set those amounts aside for infrastructure.
 - For eligible properties, participating municipalities may be able to draw from the proposed provincial funding to reimburse eligible developers for a portion of that amount.

Current Treatment

- Development charges are discretionary fees levied by municipalities and school boards on new development to help pay for the infrastructure required to service new growth.
- There are three types of development charges in Ontario:
 - **Municipal** – municipalities may levy charges on new development to help finance the growth-related capital costs for municipal services;
 - **Education** – school boards may levy a charge on new development to finance the acquisition of land to build schools required as a result of new growth;
 - **GO Transit** – York, Durham, Halton and Peel regions also use development charges to help pay for the growth-related capital costs of GO Transit.
- Both upper-tier and lower-tier municipalities may levy development charges.
- Municipalities may also provide some discretionary exemptions to development charges, such as affordable housing and brownfields redevelopments.

Implementation

- The proposed program would be implemented during 2017.
- The Province will work with municipalities and other stakeholders to finalize program details in the coming months.

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Branch: Assessment Policy & Legislation Branch, Provincial Local Finance Division

VACANT HOMES PROPERTY TAX

ISSUE

The province is empowering Toronto and potentially other interested municipalities to introduce a tax on vacant homes as one of a suite of measures designed to increase supply and address demand, making housing more affordable for people across Ontario.

Reference: Chapter II, Housing Affordability

KEY FACTS

- Ontario is taking action to make housing more affordable for homebuyers and renters.
- The government is introducing the Fair Housing Plan – a comprehensive set of measures that would, if passed, help more people find an affordable place to call home, while bringing stability to the real estate market.
- As an important component of this Plan, the government is proposing a Vacant Homes Property Tax power for the City of Toronto.
- Ontario is empowering Toronto and potentially other interested municipalities to introduce a tax on vacant homes as one of a suite of measures designed to increase supply and address demand, making housing more affordable for people across Ontario.
- The government understands the concerns that have been raised about residences potentially being left vacant by speculators, while many people are looking for housing they can afford.
- The Mayor of Toronto has expressed concerns about reports that speculators are leaving a significant number of homes vacant in Toronto. The Mayor has also identified a tax on vacant homes as a tool that should be considered in order to address this concern.
- Such a tax could help encourage property owners to sell unoccupied units or make them available to be rented. This could, in turn, increase housing supply and help promote affordability.
- For this reason, the government is proposing amendments to legislation that would grant Toronto broad authority to levy an additional property tax on vacant homes. If the City decides to proceed with this tax, it would be responsible for its detailed design, implementation, and administration.
- The government will also work with other interested municipalities that are experiencing issues with homes being left vacant as a result of speculation.

BACKGROUND

Vancouver recently introduced an Empty Homes Tax, which is a property tax of 1 per cent on unoccupied residences, defined as property that is not occupied as a principal residence or rented to a long-term tenant for at least six months of the current year. :

Legislative Amendments

Amendments will be proposed to both the City of Toronto Act and the Municipal Act.

These amendments would enable Toronto to levy a Vacant Homes Property Tax, and also allow the Minister of Finance to extend this authority to other interested municipalities.

The Vacant Homes Tax would be collected through the existing property tax system and would have the same legal status as property taxes.

Implementation

If the City decides to proceed with this tax, it might do so as early as 2018.

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Branch: Municipal Funding Policy Branch, Provincial Local Finance Division

PROPERTY TAXATION OF VACANT LAND

ISSUE

The Province will work with municipalities to ensure they have the flexibility through the property tax system to help unlock development and encourage the supply of new housing, which would in turn help to promote affordability.

The Province is introducing a legislative framework that would permit municipalities to impose a higher tax rate on vacant residential land that has been approved and serviced for new housing.

Reference: Chapter II, Housing Affordability

KEY FACTS

- Currently, vacant land that is zoned for residential development is taxed at the same municipal and education tax rates as land that is developed with a residential dwelling.
- Concerns have been expressed that land which has been approved and serviced for housing is being left undeveloped and held for speculative purposes.
- The government will work with municipalities to ensure they have the tools they need to help encourage the supply of new housing.
 - This could include providing municipalities with the flexibility to use property tax tools to assist with unlocking development opportunities.
 - For example, municipalities could be permitted to impose a higher tax rate on vacant land that has been approved and serviced for new housing.
- The government is proposing a legislative framework to ensure that municipalities have the flexibility to use property tax tools to help unlock development opportunities.
- Permitting municipalities to apply a higher tax rate to vacant land that has been approved and serviced for housing could help unlock development opportunities.
 - A higher tax on vacant land would complement provincial efforts to streamline the development approvals process and help bring new housing to market more rapidly.

BACKGROUND

- Currently, vacant land that is zoned for residential development is taxed at the same municipal and education tax rates as land that is developed with a residential dwelling.
- Concerns have been expressed that land which has been approved and serviced for housing is being left undeveloped and held for speculative purposes.
- Upon the enactment of legislation, amendments would be made to the *Assessment Act*, *Municipal Act*, and *City of Toronto Act* to provide more flexible property tax tools for municipalities.
 - These amendments would provide greater flexibility for the design of property classes and sub-classes, and would ensure that municipalities have the option to impose a higher tax rate on vacant land that has been approved and serviced for residential development.
- The Province will be working with municipalities to develop key parameters for these new tools that would best address their local circumstances.
- Subject to the passage of legislation, it is anticipated that regulations to support these new flexible tools would be in place later in 2017. However, the implementation of any new measures will be dependent on municipal decisions.

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Branch: Assessment Policy & Legislation Branch, Provincial Local Finance Division

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

ISSUE

What is the status of the government's initiative to create the Financial Services Regulatory Authority of Ontario (FSRA)?

Reference: Chapter II, Consumer Protection

KEY FACTS

- The government is committed to establishing a new flexible and innovative financial services and pension regulator that will strengthen consumer, investor and pension plan beneficiary protection, and is taking key steps to begin the transition to FSRA.
- The government expects to appoint a board of directors in spring 2017 to oversee the management of FSRA's affairs as it builds its regulatory capacity.
- The government will also continue to consult with stakeholders and review the Expert Advisory Panel's recommendations.
 - This work will inform the development of FSRA's mandate and governance structure and the structure and powers of the Financial Services Tribunal (FST).
 - Legislative amendments regarding these priorities are expected to be introduced by the end of 2017.

BACKGROUND

The *2014 Ontario Economic Outlook and Fiscal Review* announced that the government would be undertaking mandate reviews of the Financial Services Commission of Ontario (FSCO), the Financial Services Tribunal (FST) and the Deposit Insurance Corporation of Ontario (DICO).

- FSCO is responsible for regulating Ontario's insurance sector, pension plans, loan and trust corporations, credit unions, the mortgage broker sector, co-operative corporations and service providers who invoice auto insurers for statutory accident benefit claims.
- The FST adjudicates cases involving compliance issues in the regulated sectors.
- DICO provides deposit insurance for members of Ontario's credit unions and is also responsible for prudential oversight and solvency regulation of the sector.

Expert Advisory Panel

In March 2015 the government announced the appointment of an Expert Advisory Panel to review the mandates of FSCO, the FST and DICO.

The Panel conducted extensive consultations through two separate consultation reports and roundtable consultation sessions and submitted a Final Report to the Minister of Finance on March 31, 2016. The report included 44 recommendations for modernizing the regulation of financial services and pensions. It was made publicly available on the Ministry of Finance's website on June 20, 2016.

The Panel's key recommendation was for government to wind down FSCO and replace it with FSRA, a new integrated, operationally independent, self-funded and board-governed regulator.

Government Response

In the *2016 Budget*, the government committed to modernizing and strengthening the regulation of financial services and pensions, and to improving consumer, investor and pension plan beneficiary protection. Subsequently, the government released the Panel's final report on June 20, 2016.

On September 23, 2016 the Minister of Finance received a new mandate letter setting out the Premier's instructions to the Minister on priorities. The letter noted that the Minister's specific priorities included developing the government's response to the Panel's final report and implementing any changes that result, ensuring strong regulation of financial services and pensions and improved consumer, investor and pension plan beneficiary protection. The Minister's December 30, 2016 mandate letter to Yvan Baker, his Parliamentary Assistant, included the same priority.

After considering the Panel's recommendations, on November 14, 2016 the government announced in the *2016 Ontario Economic Outlook and Fiscal Review* that it would introduce legislation that, if passed, would establish the initial parameters of FSRA.

The *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act) was introduced as Schedule 8 of Bill 70, the *Building Ontario Up for Everyone Act (Budget Measures), 2016*. Bill 70 was introduced on November 16, 2016 and received Royal Assent on December 8, 2016. The FSRA Act will come into force upon proclamation by the Lieutenant Governor.

The government's next step will be appointing a board of directors to oversee the management of FSRA's affairs. It is anticipated that the board will be appointed in spring 2017.

The government will also continue to consult with stakeholders and review recommendations from the Panel to inform the development of FSRA's mandate and governance structure, as well as the structure and powers of the FST. Legislative amendments regarding these priorities are expected to be introduced by the end of 2017.

Prepared by: Mary Rollinson-Lorimer/ Stuart Wilkinson

Branch: Financial Services Regulation Modernization Secretariat, Financial Services Policy Division

REGULATION OF FINANCIAL PLANNING

ISSUE

Currently in Ontario, no general framework exists to regulate the activities of individuals who offer financial planning and financial advisory services. This potential regulatory gap leaves consumers vulnerable when seeking assistance to meet their financial goals.

Accordingly, the government appointed an independent Expert Committee to review regulatory policy alternatives relating to financial planning and advisory services. The final report of the Expert Committee was released in March 2017.

The government is considering the report's recommendations in the context of the ongoing transformation of Ontario's financial services regulatory system.

Reference: Chapter II: Strengthening Consumer and Investor Protection

KEY FACTS

- The Expert Committee made a number of important recommendations, including:
 - Closing the regulatory gap that currently allows financial planners to perform their work without regulatory oversight or specified proficiency requirements.
 - Curbing consumer confusion by restricting the use of titles.
 - Adopting a universal statutory best interest duty.
 - Strengthening the regulation of referral arrangements.
 - Creating a single, free and comprehensive central registry.
 - Supporting financial literacy.
- Over the coming year, the government intends to work with its regulatory partners to close the regulatory gap, restrict the use of titles related to financial planning, and respond to the report's recommendations regarding referral arrangements and the creation of a central registry.
- Informed by consultations led by the Ontario Securities Commission (OSC) and in close conjunction with its regulatory partners, the government intends to examine the feasibility of a universal statutory best interest duty in Ontario.
- The government's actions in each of these areas will be informed by input from relevant stakeholders and Ontario's financial services regulators.

BACKGROUND

- The Expert Committee consisted of:
 - Malcolm Heins (Chair);
 - Anita Anand;
 - Paul Bates; and,
 - Lawrence Haber.
- Through 2015 and 2016, the Expert Committee conducted an extensive stakeholder consultation process, including the release of an initial consultation document and a preliminary policy recommendations paper.
- The Expert Committee received hundreds of written submissions from interested parties, and conducted in-person consultation sessions in Toronto; Ottawa; Windsor; Hamilton; and Thunder Bay.
- The Expert Committee submitted its final report to the Minister of Finance in November 2016.
- The final report of the Expert Committee was released in March 2017.

Prepared by: Salman Sadruddin

Branch: Financial Services Policy Division

REGULATION OF SYNDICATED MORTGAGES IN ONTARIO

ISSUE

Syndicated mortgage investments (SMIs) can be complex, high-risk products and are being increasingly marketed towards retail investors. Given the current low-interest rate environment, the high returns advertised by those offering syndicated mortgage investments may prove tempting to less sophisticated investors.

Reference: Chapter II, Section 4: Strengthening Consumer and Investor Protection

KEY FACTS

- A syndicated mortgage is a mortgage loan in which two or more persons participate, directly or indirectly, as a lender in the debt obligation secured by a mortgage.
 - A syndicated mortgage can be as simple as two people jointly loaning a third person money secured by a mortgage on that person's home, or as complex as a group of investors providing a subordinated loan as part of a major development proposal.
- Ontario's syndicated mortgage market has grown rapidly in recent years.
- \$6.6 billion – the total value of all 2016 SMIs, compared to \$3B in 2012*
- 4% of all mortgages by value, and 2% by number*
- Syndicated mortgage investments are generally subject to the regulatory framework of the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (MBLAA), overseen by the Financial Services Commission of Ontario (FSCO).
- The government is taking steps to ensure that the regulatory framework for these products provides strong investor protections.
 - In the coming years, the government plans to transfer regulatory authority for SMIs from FSCO to the securities regulator.
- In advance of the transfer, the government is taking action to strengthen protections for investors by establishing investment limits for these products and requiring mortgage brokerages to document their assessments of the suitability of such products for their clients.
- Additionally, FSCO would expand disclosure requirements relating to these products to ensure that investors are aware of the potential risks associated with these types of investments.
- The government will consult on proposed changes to regulations under the MBLAA relating to SMIs, in the coming months.

*figures based on data collected by FSCO from the mortgage broker sector's Annual Information Return

BACKGROUND

- Although syndicated mortgage investments are considered to be securities, investments in syndicated mortgages are generally regulated by FSCO under the MBLAA, rather than by the Ontario Securities Commission (OSC), as a result of dealer registration and prospectus exemptions in the *Securities Act* (Ontario).
- The expert panel that reviewed FSCO's mandate and the material published by the Co-operative Capital Markets Regulatory System (CCMR) participating jurisdictions in August 2015 both contemplate that those offering syndicated mortgage investments should be subject to the same level of regulation that the securities regulator applies to other offering documents used to raise capital in Ontario.
- In fall 2016, the government announced the creation of a working group, composed of members from the Ministry of Finance, FSCO and the OSC. The working group provided analysis and recommendations to the Minister of Finance on ways to improve investor protections related to these products.

Prepared by: Gina Stephens / Graham Smith / Daniel Padro

Branch: Financial Institutions Policy Branch / Financial Services Policy Division

IMPROVING AUTO INSURANCE

ISSUE

The government continues to make auto insurance more efficient and affordable for Ontario drivers and remains committed to finding ways to reduce auto insurance rates while improving health outcomes for accident victims.

Reference: Chapter II: Helping You and Your Family

KEY FACTS

- The 2017 Budget announced electronic proof of insurance will be an option available to drivers this year, providing drivers with the choice and convenience of using their mobile device to confirm proof of insurance instead of the current “pink slips”. The Budget also announced the government’s intention to introduce an industry-wide discount for policyholder who receive documents electronically, including proof of insurance and other documents.
- Ontario’s advisor on auto insurance, David Marshall, has recommended a wide-scale transformation of the auto insurance system to improve health outcomes, lower costs and make auto insurance more affordable.
- To ensure that Ontarians are adequately protected when participating in the ride-sharing activities of companies like Uber, RideCo and Turo, the government has taken steps to enable auto insurance coverage for ride-sharing drivers and passengers.
- In recent years, the government has introduced a number of important and necessary measures to reduce costs and lower rates in Ontario’s auto insurance system.

BACKGROUND

Marshall Report

David Marshall, former President and CEO of the Workplace Safety and Insurance Board, was appointed as Advisor on auto insurance in February 2016. Mr. Marshall examined records and conducted research and interviews, including interviews and discussion with officials within the Financial Services Commission of Ontario (FSCO), the Ministry of Finance (MOF) and representatives of insurance companies and associations in Ontario and other jurisdictions.

The report, titled *Fair Benefits Fairly Delivered: A Review of the Auto Insurance System in Ontario*, was posted on the MOF website on April 11, 2017. Mr. Marshall recommends transformative steps to improve health outcomes for those injured in collisions and reduce insurance costs, including:

- Prohibiting cash settlements for most accident victims;
- Implementing evidence-based mandatory programs of care to treat most common injuries;
- Introducing independent hospital-based examination centres to provide single medical assessments; and
- Increasing the financial services regulator's role in monitoring and investigating practices in the auto insurance system.

The recommendations provided by Mr. Marshall are complex. The government is reviewing his recommendations, and will be hosting consultations in the coming months.

Ride-Sharing

In the 2016 Ontario Budget, the government committed to ensuring the Province's auto insurance system can help provide peace of mind to drivers and passengers using private vehicles for hire.

Regulatory changes enabled the Financial Services Commission of Ontario (FSCO) to approve an interim fleet insurance policy in 2016 to help close the gap in auto insurance coverage. This is a quick and flexible response that puts the protection of Ontarians first.

A working group that includes members from FSCO and the insurance industry is exploring a number of topics related to ride-sharing in order to provide advice to government.

Past Auto Insurance Reforms

Since 2013, the government has implemented a series of reforms as part of its cost-reduction strategies. The reforms included measures to protect consumers, as well as changes to the auto insurance system while still maintaining generous coverage.

Consumer protection measures included:

- Implementing a new auto insurance dispute resolution system housed within the Ministry of the Attorney General's Licence Appeal Tribunal (LAT) to help injured Ontario drivers settle disputed claims faster. The Automobile Accident Benefits Service at the LAT started accepting applications on April 1, 2016.
- Lowering the maximum interest rate charged on monthly auto insurance premium payments from 3% to 1.3% (effective June 1, 2016).
- Prohibiting premium increases for minor at-fault accidents that meet certain criteria (effective June 1, 2016).

Next Steps

- The government will be consulting on Mr. Marshall's report in the coming months.
- More changes will be necessary to fully integrate sharing economy business models into Ontario's auto insurance system. The government looks forward to receiving the working group's advice.

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Date Prepared: April 21, 2017

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Financial Services Policy Division

FAIR HOUSING PLAN – MOF INITIATIVES

ISSUE

Budget 2017 highlights Ontario's Fair Housing Plan, which was announced on April 20, 2017.

Reference: Chapter II, "Helping You and Your Family"

KEY FACTS

- Ontario's Fair Housing Plan announced on April 20, 2017, includes a number of measures that involve several ministries. Initiatives managed by the Ministry of Finance include:
- A new 15 per cent Non-Resident Speculation Tax (NRST) on the price of homes in the Greater Golden Horseshoe (GGH) purchased by individuals who are not citizens or permanent residents of Canada or by foreign corporations.
- Legislation that would empower Toronto and potentially other interested municipalities to introduce a vacant homes property tax to encourage property owners to sell unoccupied units or rent them out.
- Ensuring that property tax for new multi-residential apartment buildings is charged at a similar rate as other residential properties. This will encourage developers to build more new purpose-built rental housing and will apply to the entire province.
- Introducing a targeted \$125-million, five-year program to further encourage the construction of new rental apartment buildings by rebating a portion of development charges.
- Providing municipalities with the flexibility to use property tax tools to help unlock development opportunities. For example, municipalities could be permitted to impose a higher tax on vacant land that has been approved for new housing.
- Working to understand and tackle practices that may be contributing to tax avoidance and excessive speculation in the housing market. This includes "paper flipping," a practice that includes entering into a contractual agreement to buy a residential unit and assigning it to another person prior to closing.
- Partnering with the Canada Revenue Agency to explore more comprehensive reporting requirements so that correct federal and provincial taxes, including income and sales taxes, are paid on purchases and sales of real estate in Ontario.

BACKGROUND

Non-Resident Speculation Tax (NRST)

The non-resident speculation tax (NRST) is a 15% tax on the purchase or acquisition of an interest in residential property located in the Greater Golden Horseshoe (GGH) by individuals who are not citizens or permanent residents of Canada or by foreign corporations and taxable trustees.

The GGH includes the following geographic areas: Brant, Dufferin, Durham, Haldimand, Halton, Hamilton, Kawartha Lakes, Niagara, Northumberland, Peel, Peterborough, Simcoe, Toronto, Waterloo, Wellington and York.

The NRST applies in addition to the general land transfer tax in Ontario.

Upon the enactment of legislation, the NRST will be effective as of April 21, 2017.

Binding agreements of purchase and sale signed on or before April 20, 2017 are not subject to the NRST.

The NRST applies to the transfer of land which contains at least one and not more than six single family residences. Examples of land containing one single family residence include detached and semi-detached houses, townhouses and condominium units. In a situation involving the purchase of multiple condominium units, each unit is considered land containing one single family residence. Examples of land containing more than one single family residence that are subject to the tax include duplexes, triplexes, fourplexes, fiveplexes and sixplexes.

The NRST does not apply to other types of land such as multi-residential rental apartment buildings with more than six units, agricultural land, commercial land or industrial land.

Teranet will require some time to update their systems in order to be able to collect the NRST. During this interim period, to ensure compliance with the legislation, affected purchasers/transferees should pre-pay both the Land Transfer Tax and the NRST directly to the MoF's office in Oshawa. Further details are available on the Ministry of Finance website.

Vacant Homes Property Tax

Vancouver recently introduced an Empty Homes Tax, which is a property tax of 1 per cent on unoccupied residences, defined as property that is not occupied as a principal residence or rented to a long-term tenant for at least six months of the current year.

If Toronto decides to proceed with this tax, it would be expected to undertake consultations and analysis to determine an appropriate tax rate.

The objective of this tax is not to generate additional revenues but rather to encourage property owners to sell unoccupied units or make them available to be rented.

If the City decides to proceed with this tax, it would be responsible for detailed design, implementation and administration of a vacant homes tax.

- For context, we understand that the City of Vancouver's Empty Homes Tax relies on self-declaration, and an audits and complaint system to determine whether properties are vacant.

Multi-Residential Property Taxation

While the Province applies the same education property tax rate to multi-residential and residential properties, multi-residential properties are typically subject to a significantly higher municipal property tax rate than other residential properties.

On average, municipalities currently tax multi-residential buildings at twice the rate of other residential properties. In fact, many multi-residential properties are taxed by municipalities at nearly three times the rate of residential properties. Since property taxes for multi-residential apartment buildings are generally reflected in the rents paid by tenants, the higher property tax burden is concerning given the lower average incomes of tenants in multi-residential apartment buildings.

Therefore, in the 2016 Economic Outlook and Fiscal Review, the Province announced a review of the property taxation of multi-residential apartment buildings to improve housing affordability in the rental market.

Based on early feedback during the review and as a part of the Fair Housing Plan, the Province will implement a mandatory new multi-residential property class. This will ensure that municipalities tax new multi-residential buildings at a similar rate as other residential properties.

The lower tax level for new multi-residential buildings will not result in any loss of existing municipal tax revenues, as it will apply only to newly constructed apartments. Moreover, municipalities will levy property taxes on these properties using the same tax rate that would have applied had they been developed as condominiums.

This measure will be applied consistently across the province to all new multi-residential properties where applications for building permits are received and approved on or after April 20, 2017. Eligibility for the new multi-residential class will be determined by the date of the first building permit issued for the property.

The mandatory new multi-residential property class will support and encourage the development of new purpose-built rental units and help improve housing affordability in the rental market.

Development Charges

Development charges are upfront fees levied by municipalities and school boards on new development to help pay for the infrastructure required to service new growth.

- Some developers have suggested that these charges can be a barrier to the development of new purpose-built multi-residential rental housing.

To encourage the development of new purpose built multi-residential rental apartment buildings, the government is proposing a new targeted, \$125 million, five-year program to rebate a portion of development charges for new multi-residential rental apartment buildings.

The new rebate program would be scoped to target projects in those communities that are most in need of new purpose-built rental housing and that would not have proceeded in the absence of this incentive.

This program would be provided as an optional tool for municipalities to encourage new multi-residential development in their communities.

- Municipalities who opt to participate would help tailor the design of the program to meet the needs of their communities.
- For example, eligible projects could include those that meet key criteria such as affordability and providing an appropriate mix of unit types.

In the 2016 Economic Outlook and Fiscal Review, the Province announced a review of the property taxation of multi-residential apartment buildings to improve housing affordability in the rental market. The proposed development charge rebate program is an early outcome from that review.

This proposed rebate program would not reduce this important source of revenue for funding infrastructure. Municipalities and school boards will still collect the development charges and set those amounts aside for infrastructure, but will be able to draw from the proposed provincial funds to reimburse the developer for a portion of that amount.

There are three types of development charges in Ontario.

- Municipal – municipalities may levy charges on new development to help finance the growth-related capital costs for municipal services;
- Education – school boards may levy a charge on new development to finance the acquisition of land to build schools required as a result of new growth;
- GO Transit – York, Durham, Halton and Peel regions also use development charges to help pay for the growth-related capital costs of GO Transit.

Both upper-tier and lower-tier municipalities may levy development charges.

Municipalities may also provide some discretionary exemptions to development charges, such as affordable housing and brownfields redevelopments.

The proposed program would be implemented during 2017.

The Province will work with municipalities and other stakeholders to finalize program details in the coming months.

Property Taxation on Vacant Land

Currently, vacant land that is zoned for residential development is taxed at the same municipal and education tax rates as land that is developed with a residential dwelling.

The Province has heard concerns that serviced land that has been approved for residential development is being held by developers for speculation purposes.

- We are working with municipalities to determine the extent to which this is taking place.

The government is proposing to provide municipalities with the flexibility to use property tax tools, such as imposing a higher tax rate on vacant land that has been serviced and approved for new housing, to help unlock development opportunities, which would in turn, increase the supply of new housing and promote affordability.

Providing municipalities with tools to help encourage the supply of new housing would also complement provincial efforts to streamline the development approvals process and help bring new housing to market more rapidly.

The Province will work with municipalities to determine the flexibility they require to address local concerns, including how best to structure property tax tools to encourage vacant residential land to be brought more quickly into the development process.

The proposed higher tax rate on vacant land would be a municipal option.

Upon enactment of the legislation, it is anticipated that regulations to support these new flexible tools would be in place later in 2017.

However, the implementation of any new measures will be dependent on municipal decisions.

Fair Housing Plan – Non-MOF Initiatives

Ontario's Fair Housing Plan introduces a comprehensive package of measures to help more people find affordable homes, increase supply, protect buyers and renters and bring stability to the real estate market. In addition to the measures mentioned above, the plan includes:

- Introducing legislation at the first possible opportunity that would expand rent control to all private rental units in Ontario, including those built after 1991.
- Strengthening the Residential Tenancies Act to further protect tenants and ensure predictability for landlords, e.g., developing a standard lease, tightening provisions for "landlord's own use" evictions, etc.

- Establishing a program to leverage the value of surplus provincial land assets across the province to develop a mix of market housing and new, permanent, sustainable and affordable housing supply.
- Creating a new Housing Supply Team with dedicated provincial employees to identify barriers to specific housing development projects and work with developers and municipalities to find solutions.
- Working with the real estate profession and consumers, the province is committing to review the rules real estate agents are required to follow to ensure that consumers are fairly represented in real estate transactions.
- Establishing an ad hoc housing advisory group, which will meet quarterly, to provide government with ongoing advice about the state of the housing market, and discuss the impact of the measures in the Fair Housing Plan and any additional steps that are needed.
- Educating consumers on their rights, particularly on the issue of one real estate professional representing more than one party in a real estate transaction.
- Making a number of additional reforms to the land-use planning system so that it is more efficient, transparent and easier to build needed housing, including some long overdue reforms that will be proposed for the Ontario Municipal Board.
- Working with municipalities to better reflect the needs of a growing Greater Golden Horseshoe through an updated Growth Plan. New provisions will require municipalities to consider the appropriate range of unit sizes in higher density residential buildings to accommodate a diverse range of household sizes and incomes.



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ESTABLISHMENT OF ONTARIO SENIORS PUBLIC TRANSIT TAX CREDIT

ISSUE

The Province has committed to making public transportation more affordable for seniors through the establishment of the Ontario Seniors Public Transit Tax Credit.

Reference: Chapter II

KEY FACTS

- To help Ontario's seniors participate in community life, the Province is committed to making public transportation more affordable for seniors.
- The government is proposing a new Ontario Seniors Public Transit Tax Credit for all Ontarians aged 65 or older, covering eligible public transit costs as of July 1, 2017.
- It would provide a 15 per cent refundable benefit of 15 per cent of eligible public transit costs, providing an average annual benefit of \$130.

BACKGROUND

The 2017 Federal budget announced the elimination of the federal Public Transit Tax Credit as of July 1, 2017. The federal Public Transit Tax Credit was designed to target relief to commuters who regularly use public transit and provided a 15 per cent non-refundable tax credit for the cost of eligible public transit passes to all Canadians.

Implementation of the Ontario Seniors Public Transit Tax Credit, which would go into effect July 1, 2017, would provide continued coverage to seniors currently eligible for the federal tax credit.

Further details regarding program delivery will be announced in time for the July 1 implementation date.

Prepared by: Yeetak Lam (416-327-2023) / Felix Fung

Branch: General Government, Planning and Resources Branch/PEMD (TBS)

ONTARIO'S HOUSING MARKET

ISSUE

What is the government doing to help reduce the cost of home ownership?

References: Chapters 2 and 6B

KEY FACTS

- The Ontario government is taking action to make housing more affordable for homebuyers and renters by introducing the Fair Housing Plan. The plan outlines a set of 16 comprehensive measures that will help more people find an affordable place to call home, while bringing stability to the real estate market and protecting the investment of homeowners.
- Growth in Ontario resale home prices have accelerated sharply. The gains reflect solid economic fundamentals, but other factors – such as non-resident speculation – are likely playing a role. While home price gains have been strong in the GTA, surrounding regions in the GGH have also recorded rapid price increases recently.
- Ontario household debt has continued to rise fueled by mortgage debt accumulation. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable to an adverse economic shock.
- Despite historically low mortgage rates, mortgage carrying costs of a newly purchased home are elevated relative to their long-term average. As of 2016, this deterioration in affordability is most acute in the GTA.

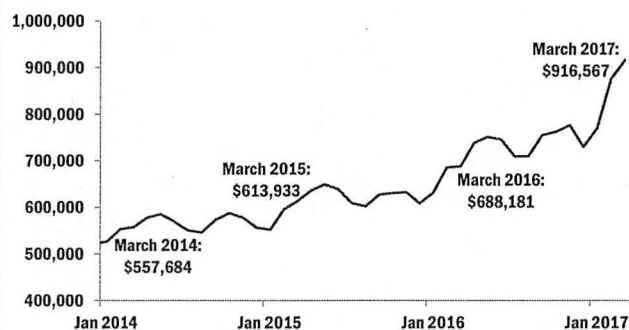
BACKGROUND

Housing Market Conditions

Ontario's housing market has been robust in recent years, supported by solid economic fundamentals, including a growing population, rising employment, higher incomes and very low borrowing costs. The influence of other factors, such as non-resident demand and speculation, are thought by many economists to be playing a role.

Toronto Home Resale Prices

(\$, Unadjusted)



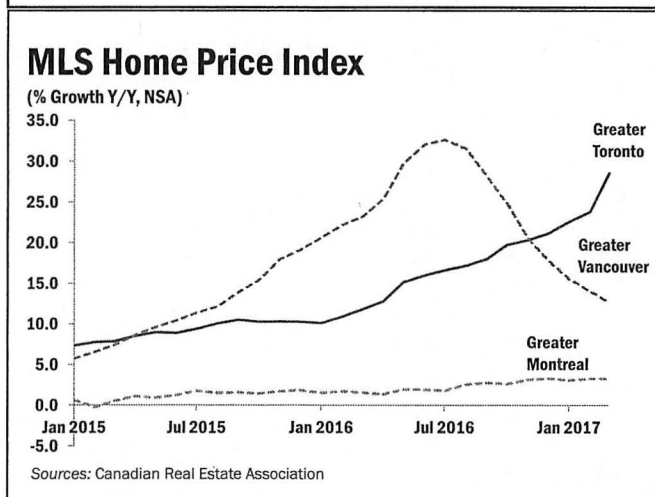
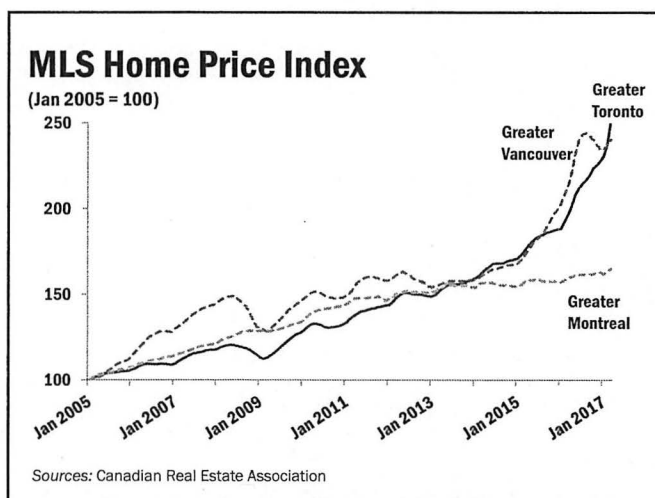
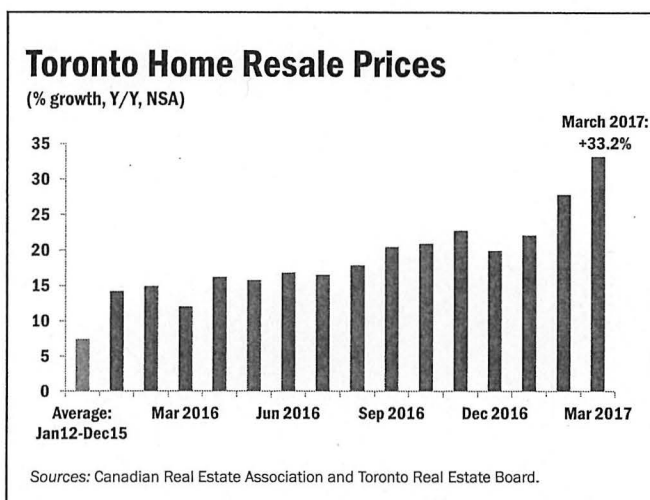
Sources: Canadian Real Estate Association and Toronto Real Estate Board.

- House price increases have been particularly significant in the Greater Toronto Area. After two consecutive years of double-digit gains, average house prices in the Toronto region reached almost \$916,567 in March 2017, up 33.2 per cent from a year earlier. Many areas in the Greater Golden Horseshoe (GGH) outside of the GTA are also experiencing rapid house price increases including Barrie, Kitchener-Waterloo and St. Catharines.
- Regardless of the underlying cause, house prices are growing well beyond a pace indicated by underlying economic fundamentals eroding housing affordability.

House price increases have significantly exceeded household income gains, diminishing affordability and raising mortgage debt accumulation. RBC Economics recently highlighted that its measure of housing affordability in the Toronto area for the fourth quarter of 2016 was its second-worst level on record since the mid-1980s.

A number of public and private institutions have noted that foreign purchases and speculative activity are likely contributing to the strength in the GTA housing market.

- In its April 2017 Monetary Policy Report, the Bank of Canada noted that “price growth in the GTA has accelerated and seems to have entered a phase in which speculation is playing a larger role.”

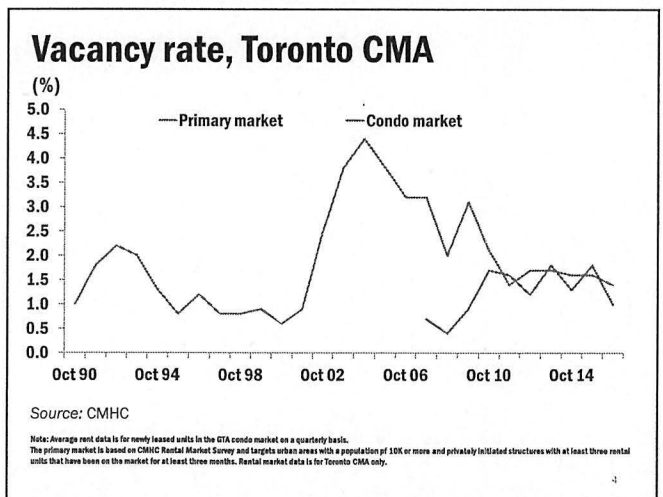
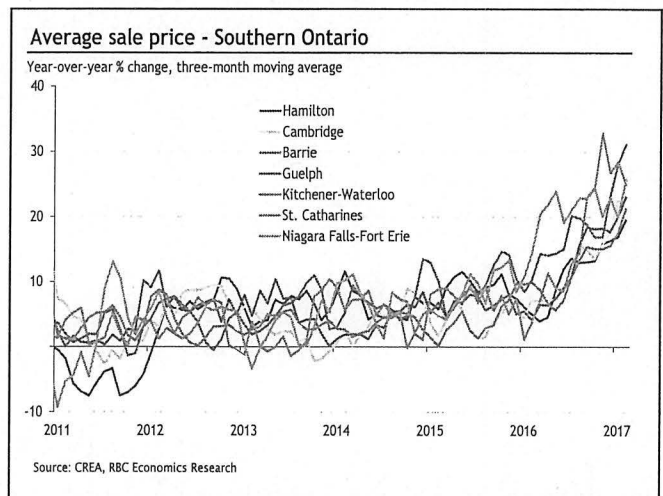
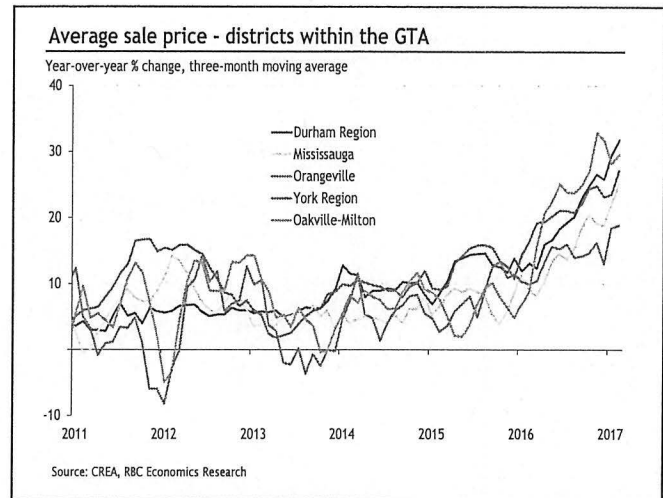


- In a recent economic commentary, TD Economics stated that the acceleration in resale house prices is at least partially attributable to speculative activity. TD Economics has also noted that there is evidence that foreign demand in the GTA has picked up since 2013.
- A November 2016 report from the CMHC highlighted that foreign ownership of condos in the Toronto CMA moved lower to 2.3% in 2016, compared to 3.3% in 2015 and 2.4% in 2014. The report noted that the share of foreign ownership of newer condos (defined as buildings completed since 2010) is higher in the Toronto CMA at 3.9% in 2016, down from 7.4% in 2015 and 5.5% in 2014.

Some private sector economists have suggested that slow supply growth may also be contributing to the rapid house price gains. In its December 2016 Financial System Review, the Bank of Canada also highlighted that supply constraints have supported continued price gains in the GTA.

Ontario's has started to experience declining vacancy rates and increases in rents, reducing housing affordability for renters.

- According to Urbanation, the average rent per square foot for newly leased units in the GTA condo market rose 8.3% in the first quarter of 2017 compared to a year earlier. While this marks a slight deceleration from the 11.6% (Y/Y) increased recorded in the fourth quarter of 2016, it is well ahead of income gains.
- CMHC's rental market survey reported Ontario's vacancy rate at 2.2% in October 2016, down from 2.5% in October 2015 and the lowest reading in five years.



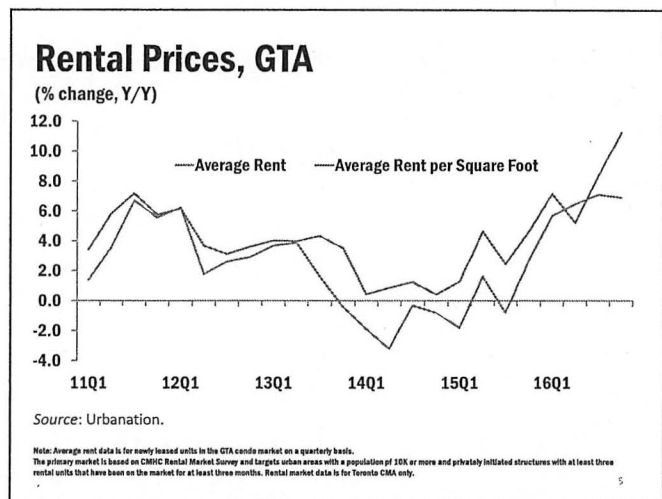
Ontario household debt loads are elevated as resale price appreciation has outpaced income gains in recent years, fueling mortgage debt accumulation. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable in the event of an adverse economic shock.

- Recent research from the Bank of Canada highlights that the share of household debt held by highly indebted households has increased across major CMAs in Ontario. In the December 2016 Financial System Review, the Bank noted that the proportion of high-ratio mortgage originations with high loan-to-income (LTI) ratios (greater than 450%) has increased. In the Toronto CMA, the share increased from 32% in 2014Q3 to 49% in 2016Q3. Further, the Bank finds that the incidence of high LTI mortgages is spreading to the surrounding areas of Toronto such as Oshawa and Hamilton.

New Government Measures Targeting the Housing Market

On April 20, 2017 the Ontario government introduced Ontario's Fair Housing Plan – a comprehensive package of measures to help more people find affordable homes, increase supply, protect buyers and renters and bring stability to the real estate market.

- <https://news.ontario.ca/mof/en/2017/04/ontarios-fair-housing-plan.html>



**Ontario Housing Market Outlook
(Per Cent)**

	2014	2015	2016	2017p	2018p
Average Resale Home Price	7.0	7.8	15.3		
PS Average				6.7	0.9
MOF				7.4	5.4
Home Resales	3.8	9.5	9.7		
PS Average				-3.6	-4.0
MOF				4.3	2.8
Housing Starts (000s)*	59.1	70.2	75.0		
PS Average				74.4	69.7
MOF				72.0	68.5

- *Most forecasters estimate housing starts as such the sample size for the resales forecast is small.
- PS average represents average across all forecasters.
- p = projection.
- Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasters (April 2017).

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INVESTING IN PEOPLE'S EDUCATION AND SKILLS

ISSUE

The government is making significant investments in postsecondary education, adult skills and training to help Ontarians succeed in the modern, knowledge-based economy.

Reference: Chapter 2 and Chapter 3

KEY SPEAKING POINTS

- Starting this fall, Ontario is rolling out the redesigned Ontario Student Assistance Program, which means free average tuition for more than 210,000 students and reduced costs for many more.
- The Province is also increasing opportunities for hands-on learning and on-the-job training for students and recent graduates through the new Career Kick-Start Strategy, to prepare students and graduates for successful careers.
- Ontario is also providing easier access to skills training and upgrading for adults through the new Ontario Lifelong Learning and Skills Plan.

KEY CONTENT LOCATIONS

- OSAP transformation - Chapter 2: Helping You and Your Family, Helping Students, Making Postsecondary Education More Affordable
- Highly Skilled Workforce Strategy - Chapter 3: Creating Opportunities and Security, Investing in People Today

Also see:

- Investing in Education - Chapter 4, Section B: Public Services You Can Count On, Achieving Excellence & Ensuring a High Quality, Accessible Postsecondary Education System

KEY ADDITIONAL INFORMATION

Under the new OSAP:

- Previously announced initiatives:
 - Eligible students, including mature students and adult learners with annual family incomes of \$50,000 or less, will receive enough in OSAP grants to cover average tuition costs;
 - 80 per cent of students with annual family incomes below \$90,000 will receive grants that equal or exceed the average cost of tuition and will not need to be repaid;

- About 230,000 students will have less debt than they would have had under previous OSAP rules; and
- No Ontario student will receive less than they are currently eligible for through the 30% Off Ontario Tuition Grant.
- Newly announced initiatives:
 - Ensuring savings from Registered Education Savings Plans (RESPs) will not reduce the amount of financial assistance provided to students through OSAP;
 - Working with Indigenous partners to identify additional targeted OSAP supports that will address economic barriers and improve access to postsecondary education for Indigenous students; and
 - Increasing the minimum salary an individual needs to earn from \$25,000 to \$35,000 before they start repaying the provincial portion of OSAP loans.

As part of the Highly Skilled Workforce Strategy, newly announced initiatives:

- The Province is investing nearly \$190 million over three years through the new Career Kick-Start Strategy to help 40,000 students and recent graduates gain hands-on learning and develop on-the-job skills.
- Ontario is also introducing the Ontario Lifelong Learning and Skills Plan. Under the Plan:
 - The government will provide around 90,000 more adults with easier access to skills training and upgrading. The new Ontario Lifelong Learning and Skills Plan will include an expansion and improvement of the Literacy and Basic Skills program, enhance dual credit opportunities for adults, fund technical and workplace-based skills training pilots, and support Ontario Bridge Training for internationally trained immigrants.
 - As part of Employment and Training Services Transformation, over the next year, the Province will be modernizing key employment and training programs, such as Second Career and the Canada–Ontario Job Grant, which support unemployed or employed workers who want to build on their skills, as well as employers with training needs.

BACKGROUND

Ontario Student Assistance Program

OSAP is an integrated student financial aid program funded by both the federal and provincial government. OSAP provides needs-based assistance through loans and grants to help qualified students and families with the cost of postsecondary studies.

- OSAP is available to adult students, married students, students with children, dependent students and single independent students. Students with children may also be eligible to receive funding for child care costs.
- More than 380,000 students per year benefit from OSAP, representing almost 60% of full-time Ontario university students and almost 70% of full-time Ontario college students.
- Ontario has been accepting applications for the new Ontario Student Assistance Program since March 2017.
- Students and their families can use the new online calculator to determine how much financial assistance they are eligible for.
- For instance, the OSAP calculator shows that a single parent who has three children and earns \$60,000 would be eligible for grants totaling more than \$16,000.
- (Source: Ontario Press Release “Free Tuition For Hundreds of Thousands of Ontario Students”, dated March 29, 2017)

Highly Skilled Workforce Strategy

- In 2015, the Premier’s Highly Skilled Workforce Expert Panel was appointed to develop a strategy to help the province’s current and future workforce adapt to the demands of a technology-driven knowledge economy. In 2016, the Premier’s Highly Skilled Workforce Expert Panel released its final report.
- (Source: Ontario Press Release “Premier’s Highly Skilled Workforce Expert Panel Releases Final Report”, dated June 23, 2016)
- The government and its partners are now implementing a Highly Skilled Workforce Strategy in order to better align education, training and skills development with the demands of a changing global economy. This strategy is focused on making progress in key areas, including expanding experiential learning and boosting investment in workers’ skills.
- (Source: Ontario’s 2017 Long-Term Report on the Economy, p. 69).
- The new Career Kick-Start Strategy will create more opportunities for high school and postsecondary students and recent graduates, to develop job relevant skills and to build their resumes. The initiative includes:

- Introducing 17,000 more Grade 11 and 12 students to career options while obtaining their high school diploma by expanding the Specialist High Skills Major Program over the next three years.
- (Source: Ontario Press Release “Ontario Boosting On-the-Job Learning Opportunities for Students”, dated April 19, 2017)

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Branch: Labour Economics Branch / Office of Economic Policy

CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

Section B: Details On Ontario's Finances and Economic Outlook

Table of Contents

Ontario Revenue Performance and Outlook	1
Fiscal Impact of the Electricity Sector.....	8
Ontario's Fiscal Outlook	12
Colleges of Applied Arts and Technology Pension Plan (CAATPP).....	20
Healthcare of Ontario Pension Plan (HOOPP).....	22
OPS Employee and Pensioner Benefits.....	25
Teachers' Pension Plan (TPP)	29

ONTARIO REVENUE PERFORMANCE AND OUTLOOK

ISSUE

How are Ontario's revenues performing? What is Ontario's revenue outlook?

Reference: Chapter VI, Section B: Details of Ontario's Finances and Economic Outlook

KEY SPEAKING POINTS

- The revenue forecast reflects current information available at the time of the 2017 Budget, including the Ministry of Finance's economic outlook and the estimated impact of Government policy decisions. Revenue in 2016–17 is estimated to be \$133.2 billion. This is \$2.6 billion, or 2.0 per cent, above the amount projected in the *2016 Budget*.
- Revenue is projected to increase from \$133.2 billion in 2016–17 to \$149.3 billion in 2019–20 or at an average annual rate of 3.9 per cent, largely reflecting the Ministry of Finance's outlook for economic growth.
- Compared to the *2016 Budget*, total revenues are higher in each year from 2016–17 to 2018–19, mainly due to higher taxation revenues resulting from stronger economic growth, higher-than-expected revenues from processing past years tax returns and recent strength in the housing market.

BACKGROUND

REVENUE INTEGRITY TARGETS

The government is taking action to strengthen the integrity of the tax system and ensure that everyone pays their fair share by conducting a policy, legislative and administrative review of all taxes. A review of revenues generated from Government Business Enterprises will also be undertaken. See Chapter VII: *A Fair and Sustainable Tax System*, Section A: Taxation, Subsection: *Strengthening Ontario's Tax System, Income Tax Avoidance, Employer Health Tax Avoidance*.

No amounts are explicitly provided in the 2017 *Document* for the expected revenue that would be generated from this review. The table below shows how **internal** revenue integrity targets have been allocated across taxes and is currently included in the Fiscal Plan.

Revenue Integrity Targets			
	(\$ Millions)		
	2017-18	2018-19	2019-20
Personal Income Tax	46	51	58
Sales Tax	36	118	138
Corporations Tax	10	29	67
Employer Health Tax	1	3	33
Beer and Wine Tax	0	30	50
Total	92	231	346
<i>Note: Numbers may not add due to rounding.</i>			

KEY REVENUE ASSUMPTIONS

While the 2017 Budget fiscal plan delivers on a balanced budget, the plan is in part based on a number of revenue assumptions.

Key Revenue Assumptions		(\$Billions)		
		2017-18	2018-19	2019-20
Stronger Housing Market Assumptions	Assumes modest slowing of housing market	0.7	1.0	1.1
Remove Nominal GDP Prudence	Removes prudence from the nominal GDP forecast	0.1	0.2	0.3
High-Yield CIT and HST assumptions	Forecast assumes revenue growth continues at a healthy pace	0.8	1.1	1.4
Revenue Integrity Targets	Assumes a successful revenue integrity strategy including additional revenue from GBEs and introduction of Beer Tax	0.1	0.2	0.4
Asset Optimization - Additional \$1/share	Assumes Hydro One shares sell at an additional \$1/share	0.1	-	-
Hold Equalization at 2017-18 level	Assumes equalization payments remain at 2017-18 (\$1.4 billion) level in 2018-19	-	0.7	-
PIT: Assume Zero Tax Planning	Assumes 2015 increase in PIT revenues will carry forward	0.4	0.4	0.4
IFRS Accounting Impact for OPG/H1	Excludes significant IFRS accounting impacts for OPG/Hydro One beyond 2017-18	-	0.5	0.5

- The revenue forecast will be subject to scrutiny by external stakeholders (e.g., FAO, credit rating agencies, private sector economists).
- Overall uncertainty in the U.S. and global economic outlook could impact the revenue outlook.
- Assumes there is no IFRS Accounting Impact for OPG/Hydro One beyond 2017-18 – which current estimates assume will not be able to be sustained over time.
- Actual results compared to the 2018-19 Equalization outlook will depend on Ontario's economic performance relative to all other provinces, which is difficult to forecast and presents a risk. However, there is some potential that this could be offset by other new federal funding.
- Approach to PIT contains extra risk related to potential tax planning that occurred in 2015 and could result in significant downside revenue in 2016-17 Public Accounts and over the forecast period.

RISKS TO THE REVENUE OUTLOOK

The table below shows detailed estimates of the impacts that could arise from unexpected changes in economic conditions for each of the revenue sources and its underlying economic driver.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2017–18 Assumption	2017–18 Sensitivities
Total Revenues		
Nominal GDP	4.3 per cent growth in 2017	\$965 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Total Taxation Revenues		
Revenue Base ¹	5.7 per cent growth in 2017–18	
Nominal GDP	4.3 per cent growth in 2017	\$690 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Personal Income Tax (PIT) Revenues		
Revenue Base	5.4 per cent growth in 2017–8	
Compensation of Employees	4.1 per cent growth in 2017	\$336 million revenue change for each percentage point change in compensation of employees growth.
2016 Tax-Year Assessments ²	\$31.2 billion	\$312 million revenue change for each percentage point change in 2016 PIT assessments. ²
2015 Tax-Year and Prior Assessments	\$1.6 billion	\$16 million revenue change for each percentage point change in 2015 and prior-year PIT assessments. ²

Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2017–18 Assumption	2017–18 Sensitivities
Sales Tax Revenues		
Revenue Base	6.9 per cent growth in 2017–18	
Nominal Household Consumption	4.3 per cent growth in 2017	\$190 million revenue change for each percentage point change in nominal household consumption growth.
2015 Gross Revenue Pool ³	\$26.1 billion	\$261 million revenue change for each percentage point change in 2015 gross revenue pool.
2016 Gross Revenue Pool ³	\$27.4 billion	\$274 million revenue change for each percentage point change in 2016 gross revenue pool.
2017 Gross Revenue Pool ³	\$28.4 billion	\$284 million revenue change for each percentage point change in 2017 gross revenue pool.
Corporations Tax Revenues		
Revenue Base	7.4 per cent growth in 2017–18	
Net Operating Surplus — Corporations	6.8 per cent growth in 2017	\$145 million change in revenue for each percentage point change in 2017 net operating surplus — corporations growth.
2016 Tax Assessments ²	\$10.6 billion	\$106 million change in revenue for each percentage point change in 2016 Tax Assessments.
2017 Canada Corporate Taxable Income	\$125.6 billion	\$144 million change in revenue for each percentage point change in the federal estimate of 2017 Ontario Corporate Taxable Income.
2018 Canada Corporate Taxable Income	\$134.9 billion	\$52 million change in revenue for each percentage point change in 2017 Ontario Corporate Taxable Income.

Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2017–18 Assumption	2017–18 Sensitivities
Employer Health Tax Revenues		
Revenue Base	4.0 per cent growth in 2017–18	
Compensation of Employees	4.1 per cent growth in 2017	\$61 million revenue change for each percentage point change in compensation of employees growth.
Ontario Health Premium (OHP) Revenues		
Revenue Base	4.5 per cent growth in 2017–18	
Compensation of Employees	4.1 per cent growth in 2017	\$26 million revenue change for each percentage point change in compensation of employees growth.
2016 Tax-Year Assessments	\$3.4 billion	\$34 million revenue change for each percentage point change in 2016 OHP assessments.

Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2017-18 Assumption	2017-18 Sensitivities
Gasoline Tax Revenues		
Revenue Base	1.6 per cent growth in 2017-18	
Gasoline Pump Prices	108.4 cents per litre in 2017	\$3 million revenue decrease (increase) for each cent per litre increase (decrease) in gasoline pump prices.
Fuel Tax Revenues		
Revenue Base	1.6 per cent growth in 2017-18	
Real GDP	2.3 per cent growth in 2017	\$11 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
Revenue Base	16.8 per cent increase in 2017-18	
Housing Resales	4.3 per cent decline in 2017-18	\$26 million revenue change for each percentage point change in both the number and prices of housing resales.
Resale Prices	7.4 per cent increase in 2017-18	
Canada Health Transfer		
Ontario Population Share	38.6 per cent in 2017-18	\$37 million revenue change for each tenth of a percentage point change in Ontario's population share.
Canada Social Transfer		
Ontario Population Share	38.6 per cent in 2017-18	\$14 million revenue change for each tenth of a percentage point change in Ontario's population share.

¹ Revenue Base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

² Ontario 2016 Personal Income Tax and Corporations Tax are estimates because 2016 tax returns are yet to be assessed by the Canada Revenue Agency.

³ The Gross Revenue Pool is a federal Department of Finance estimate and excludes the impact of Ontario measures.

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FISCAL IMPACT OF THE ELECTRICITY SECTOR

ISSUE

The electricity sector has a fiscal impact on the Province's revenues and expenses. The government dedicates the revenues it receives from the electricity sector to Ontario Electricity Financial Corporation (OEFC) towards the debt and other liabilities of the former Ontario Hydro.

Reference: Chapter 6B, Medium-Term Fiscal Outlook
Chapter 6C, Reducing Ontario's Electricity Sector Stranded Debt

KEY FACTS

- The interim combined net incomes of Ontario Power Generation (OPG), Hydro One Ltd. and Brampton Distribution Holdco Inc. are currently projected at \$842 million in 2016-17, \$207 million lower than the Budget 2016 forecast of \$1,049 million. The decrease since Budget 2016 is largely due to lower HOL net income shown as consolidated by the Province, including reflecting the fiscally-neutral re-categorization of impacts of broadening Hydro One ownership that were previously reflected under Sales and Rentals. Lower than projected OPG net income is mainly due to a variance from gross margins assumed in the 2016 Budget [and a downward adjustment reflecting the estimated IFRS 2016-17 risk].
- Electricity payments-in-lieu of taxes (PILs) are estimated to be \$373 million in 2016-17, \$280 million lower than projected in Budget 2016.
 - The decrease in PILs is largely related to the lower than assumed OPG gross margins discussed above.
- The potential impacts of additional future share offerings of Hydro One common shares, are not reflected in projected Hydro One net income, but included as part of the projected net impacts of the Province's asset optimization strategy in Sales and Rental under Other Non-Tax Revenue.
 - Hydro One Ltd. is now a publicly-traded company and any information related to the assumptions on timing and amount of additional share offerings could be considered market-sensitive, securities information. Capturing the amount in the Sales and Rental line along with other asset optimization is a prudent approach to market-sensitive information. Note that the assumed timing may also differ from the actual timing.
- Debt Retirement Charge (DRC) revenue is currently estimated to be \$625 million in 2016-17, unchanged from the Budget 2016 projection
 - The DRC for residential users ended as of January 1, 2016.
 - DRC is legislated to end for all remaining users on April 1, 2018.

- Projected revenues under Power Supply Contract Recoveries are \$739 million for 2016-17, \$96 million higher than projected in Budget 2016, primarily due to the result of a court decision on how to calculate some contracts' escalation rates.
- Any change in "Power Supply Contract Recoveries" revenues is fully offset by an equal change in expense under Power Supply Contract Costs.
- Power supply contracts are contracts of the Ontario Electricity Financial Corporation comprised of non-utility generator (NUG) contracts signed by the old Ontario Hydro in the late 1980s and early 1990s.

BACKGROUND

The following table shows the actual and projected net incomes of OPG and Hydro One, and total PILs from OPG, Hydro One and MEUs.

	Actual									Interim	Plan
(\$million)	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
Income from Investment in Government Business Enterprises											
OPG Net Income	807	183	391	414	256	136	809	1,056	463		
HOI Net Income	<u>407</u>	<u>530</u>	<u>463</u>	<u>634</u>	<u>616</u>	<u>796</u>	<u>796</u>	<u>733</u>	<u>236</u>		
Total OPG and HOI Income	1,214	713	854	1,048	872	932	1,605	1,789	719	842	617
Payments in Lieu of Taxes	546	830	516	321	367	324	543	180	3,247	373	405
Debt Retirement Charge (DRC)	982	970	907	944	952	939	954	956	859	625	623
Total (Net Income, PILS and DRC)	2,742	2,513	2,277	2,313	2,191	2,195	3,102	2,925	4,825	1,841	1,645

Note: Totals may not add up due to rounding. The Province's reported net income from OPG includes provincial consolidation adjustments for OPG's nuclear funds on a realized gains and losses basis, and downward adjustment reflecting the estimated IFRS risks. Figures shown under HOI net income also includes Brampton Holdco Inc. contribution in 2015-16 and 2016-17 (note that Brampton Holdco Inc. was owned by the Province for the period from August 2015 to February 2017).

Impacts of Broadening Ownership of Hydro One

As a result of Hydro One's completed secondary offering in April 2016, the interim 2016-17 results reflect the estimated impacts of the broadening of Hydro One ownership, including the following:

- Hydro One has exited the payments-in-lieu of taxes regime and is liable for federal and provincial corporate income taxes.

- The projected net income from Hydro One going forward will reflect the Province's proportionate ownership share of Hydro One, which is currently based on 70% share ownership following the April 2016 secondary offering.

Change from 2015-16 to 2016-17

The interim combined net incomes of OPG, Hydro One Ltd. and Brampton Distribution Holdco Inc. are projected to be \$842 million in 2016-17, up \$123 million from \$719 million in 2015-16.

The increase is largely due to lower Hydro One net income in 2015-16 reflecting the net impacts of the IPO including \$2.8 billion in PILs expenses which were only partially offset by the \$2.3 billion share of the Hydro One deferred tax benefit reflected in the Province's income from Hydro One.

Electricity PILs are projected to be \$373 million in 2016-17, down \$2,854 million from \$3,228 million in 2015-16. The decrease is primarily due to significant one-time PILs related to Hydro One's November 15, 2015 IPO, i.e., the \$2.6 billion departure tax and \$0.2 billion in additional PILs.

DRC revenue is projected to be \$625 million in 2016-17, down \$234 million from \$859 million in 2015-16, primarily due to the removal of the DRC from residential electricity users on January 1, 2016.

Revenues projected under Power Supply Contract Recoveries are \$739 million in 2015-16, \$136 million below \$875 million in 2015-16. The decrease is primarily due to the expiration of NUG contracts and early termination or suspension of some NUG contracts as a result of the IESO curtailment initiative, partially offset by the retroactive payments from OEFC to applicant NUGs as a result of the Global Adjustment lawsuit decision. The amounts are projected to generally decline over time primarily due to the expiration of NUGs contracts. Any change in "Power Supply Contract Recoveries" is fully offset by an equal change in expense under Power Supply Contract Costs.

The decrease in overall electricity sector revenues in 2016-17 was mainly due to the impacts of Hydro One's IPO in 2015-16, following large, one-time, upfront positive impacts in 2015-16.

Change from Interim 2016-17 to Plan 2017-18

Electricity sector revenues from OPG, Hydro One Ltd. and Brampton Distribution Holdco Inc. net incomes, and from PILs from OPG, Brampton Distribution Holdco Inc. and MEUs, are projected to be \$194 million lower in 2017-18 compared to 2016-17 primarily due to lower OPG net income reflecting the estimated risk in 2017-18 of a switch to IFRS accounting standards from US GAAP.

Provincial Consolidation Adjustments for the Ontario Nuclear Funds

On consolidation into Public Accounts, the Province makes an adjustment to OPG net income to reflect only the realized portion of gains and losses of OPG's nuclear funds. This adjustment is reflected in Income from Investment in Government Business Enterprises.

Unrealized gains and losses of OPG's nuclear funds are recorded as an increase or decrease in the Province's investment in OPG, which affects the Province's net debt and accumulated deficit.

Ontario Energy Board Rate Applications

A key determinant of OPG and Hydro One's financial performance are the decisions made by the Ontario Energy Board (OEB) with respect to the regulated rates charged by these companies.

Power Supply Contract Recoveries and Power Supply Contract Costs

The decrease in the Power Supply Contract Costs from 2016-17 to 2017-18 is largely due to the suspension and termination of several NUGs which entered into Enhanced Dispatch Agreements with IESO.

The decrease in the Power Supply Contract Costs is offset by a decrease in Power Supply Contract Recoveries revenue recovered by OEFC from electricity ratepayers, with no net fiscal impact.

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ONTARIO'S FISCAL OUTLOOK

ISSUE

What is the fiscal outlook presented in the 2017 Budget?

Reference: Chapter VI, Section B: Responsible Fiscal Management,

KEY FACTS

- The government is projecting a return to balance in 2017–18, and continued balance in 2018–19 and 2019–20.
- The government is projecting a deficit of \$1.5 billion in 2016–17, an improvement of \$2.8 billion compared to the 2016 Budget forecast. It is also a \$2.0 billion improvement compared with the 2015–16 deficit of \$3.5 billion.
- The government is projecting a net debt-to-GDP ratio of 37.8 per cent for 2016-17, an improvement compared to the 2016 Budget projection of 39.6 per cent.
- Over the medium term, revenue is forecast to increase from \$133.2 billion in 2016–17 to \$149.3 billion in 2019–20, while total expense is projected to increase from \$134.8 billion to \$148.4 billion over the same period.
- The Province's program expense outlook is projected to grow at an average annual rate of 2.9 per cent between 2015–16 and 2019–20. This reflects the government's commitment to invest in priority areas such as health care, education, child care expansion and electricity cost relief programs.
- The reserve included in the fiscal plan has been set at \$0.6 billion in 2017–18 and 2018–19 and \$0.9 billion in 2019–20, reflecting continued prudence while recognizing the confidence arising from a strengthening Ontario economy and a restoring of fiscal balance in Ontario.

BACKGROUND

The government is projecting a return to balance in 2017–18, and continued balance in 2018–19 and 2019–20.

TABLE 6.1 Ontario's Fiscal Plan and Outlook (\$ Billions)					
	Actual 2015–16	Interim 2016–17	Plan 2017–18	Outlook	
				2018–19	2019–20
Revenue	128.4	133.2	141.7	144.9	149.3
Expense					
Programs	120.9	123.5	129.5	132.3	135.8
Interest on Debt	11.0	11.3	11.6	12.0	12.6
Total Expense	131.9	134.8	141.1	144.3	148.4
Surplus/(Deficit) Before Reserve	(3.5)	(1.5)	0.6	0.6	0.9
Reserve	–	–	0.6	0.6	0.9
Surplus/(Deficit)	(3.5)	(1.5)	0.0	0.0	0.0
Net Debt as a Per Cent of GDP	38.6	37.8	37.5	37.3	37.2
Accumulated Deficit as a Per Cent of GDP	25.2	24.2	23.2	22.3	21.4
<i>Note:</i> Numbers may not add due to rounding.					

2016-17 Interim Fiscal Outlook

Ontario's deficit for 2016–17 is projected to be \$1.5 billion — an improvement of \$2.8 billion compared with the 2016 Budget forecast. It is also a \$2.0 billion improvement compared with the 2015–16 deficit of \$3.5 billion.

Total revenue in 2016-17 is projected to be \$2.6 billion above the *2016 Budget Plan* largely due to higher taxation revenues and stronger total net incomes from Government Business Enterprises (GBEs), partially offset by lower other revenues.

Total expense in 2016–17 is projected to be \$0.9 billion higher than forecast in the *2016 Budget*, as a result of higher program expense and lower interest on debt. This includes the impact of \$0.5 billion in lower interest on debt expense for 2016–17 than the forecast in the 2016 Budget, due to lower interest rates and cost-effective debt management.

The fiscal plan outlined in the *2016 Budget* included a \$1.0 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense forecasts in 2016–17. With a higher than expected revenue forecast exceeding higher projected expense, it is anticipated that the reserve will not be required by year-end and has been drawn down.

TABLE 6.2 2016–17 In-Year Fiscal Performance
(\$ Millions)

	Budget Plan	Current Outlook	In-Year Change
Revenue	130,589	133,228	2,639
Expense			
Programs	122,139	123,502	1,362
Interest on Debt	11,756	11,250	(506)
Total Expense	133,895	134,752	856
Reserve	1,000	–	(1,000)
Surplus/(Deficit)	(4,306)	(1,524)	2,783

Note: Numbers may not add due to rounding.

2016–17 Revenue Changes since the 2016 Budget

The 2016–17 revenue outlook, at \$133.2 billion, is \$2.6 billion, or 2.0 per cent, above the *2016 Budget Plan*. This increase is largely due to higher taxation revenues and stronger total net incomes from Government Business Enterprises (GBEs), partially offset by lower other revenues.

Details of 2016–17 In-Year Revenue Changes

Highlights of key 2016–17 revenue changes from the 2016 Budget forecast are as follows:

- **Corporations Tax (CT)** revenue is \$1,296 million higher, mainly due to higher revenue in 2015 and prior years from tax returns processed and a stronger corporate profits outlook relative to the 2016 Budget.
- **Personal Income Tax (PIT)** revenue is \$717 million higher than the *2016 Budget* forecast, primarily due to higher 2015 revenue from tax returns processed.
- **Sales Tax** revenues are estimated to be \$714 million higher, largely reflecting an increase to Harmonized Sales Tax (HST) revenues due to higher Ontario share of the overall HST/ GST revenue pool as the provincial economy has performed better than the rest of Canada in 2015 and 2016.
- **Land Transfer Tax (LTT) revenues** are estimated to be \$637 million higher, due to higher Ontario housing resale prices.
- **All Other Tax** revenues combined are estimated to be \$120 million lower, mainly due to lower revenues from electricity payments in lieu (PIL) of taxes and Employer Health Tax, partially offset by higher revenues from Education Property Tax, Gasoline Tax, Tobacco Tax and Ontario Health Premium.

- **Government of Canada** transfers are estimated to be \$249 million lower than the 2016 Budget forecast, largely reflecting lower transfers for infrastructure projects, mainly due to revised timelines for the Building Canada Fund and the absence of anticipated federal health funding for home care.
- Net income from the **Liquor Control Board of Ontario (LCBO)** is projected to be \$296 million higher than projected in the 2016 Budget, primarily due to the recategorization from Sales and Rentals of the impact of the sale of its head office lands as part of the Province's asset optimization strategy.
- Net income from the **Ontario Lottery and Gaming Corporation (OLG)** is estimated to be \$181 million higher than projected in the 2016 Budget, due to higher than projected revenues in OLG's lottery, slots and casinos, and resort casinos business lines.
- The combined net incomes of **Ontario Power Generation Inc. (OPG), Hydro One Limited (HOL) and Brampton Distribution Holdco Inc.** are projected to be \$207 million below the 2016 Budget forecast. Lower HOL net income shown as consolidated by the Province mainly reflects the recategorization of impacts of broadening Hydro One ownership that were previously reflected under Sales and Rentals. Lower than projected OPG net income is mainly due to a variance from gross margins assumed in the 2016 Budget.
- **Other Non-Tax Revenue** is projected to be \$626 million lower, mainly due to reprofiling of carbon allowance proceeds from 2016–17 to 2017–18, and lower revenue under Sales and Rentals which mainly reflects the recategorization of revenues related to the Province's asset optimization strategy.

2016–17 Expense Changes since the 2016 Budget

The 2016–17 total expense outlook is \$134.8 billion, \$0.9 billion higher than the 2016 Budget forecast. This growth is primarily due to additional investments in hospitals, Green Investment Fund initiatives, and additional investments in the Ontario Disability Support Program and the Ontario Rebate for Electricity Consumers, which are partially offset by lower-than-projected interest on debt expense.

Details of 2016–17 In-Year Expense Changes

The following expense changes have occurred since the 2016 Budget:

- **Health sector** expense is projected to increase by \$483 million, primarily due to additional investments in hospitals to support the needs of patients and reduce wait times, and funding to support additional stem cell transplants in Ontario.
- **Education sector** expense is projected to be \$105 million higher than forecast, primarily due to higher-than-projected enrolment.

- **Postsecondary and training sector** is projected to be \$69 million lower than anticipated, mainly as result of lower-than-forecasted demand in Employment and Training programs and student financial assistance programs.
- **Children's and social services sector** expense is projected to increase by \$287 million, primarily due to additional investments to address demand for the Ontario Disability Support Program and increased funding for autism services.
- **Justice sector** expense is expected to increase by \$115 million, primarily due to settlements under the *Proceedings Against the Crown Act*, reforms to the corrections system and ensuring wage parity for First Nation police officers.
- **Other programs** expense is expected to increase by \$441 million, mainly due to the Green Investment Fund initiatives, the Ontario Rebate for Electricity Consumers, investments in social and affordable housing and the Clean Water and Wastewater Fund.

Interest on debt expense is projected to be \$506 million lower than forecast in the *2016 Budget*, primarily due to lower-than-forecast interest rates, the lower forecasted deficit and cost-effective debt management.

Fiscal Prudence

The fiscal plan outlined in the *2016 Budget* included a \$1.0 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense forecasts in 2016–17. With a higher than expected revenue forecast exceeding higher projected expense, it is anticipated that the reserve will not be required by year-end and has been drawn down.

The 2016-17 interim expense projection maintains a contingency fund of \$30 million in recognition of expense changes that could materialize as the Public Accounts of Ontario for 2016-17 are finalized.

Medium-Term Fiscal Outlook

The government is projecting a balanced budget in 2017–18, consistent with the plan first laid out in the 2010 Budget. The Province is also projecting continued balance in 2018–19 and 2019–20.

The medium-term revenue outlook is above the 2016 Budget Plan largely because of strong performance in taxation revenues driven by a growing economy. Personal Income Tax and Corporations Tax revenues are boosted by stronger-than-expected assessments for 2015 and prior years. Higher HST revenues reflect upward federal revision to Ontario entitlements due to an increase in Ontario's share of the overall revenue pool and lower housing rebates. Land Transfer Tax (LTT) revenues have been boosted by higher than expected increases in housing prices.

Total expense over the medium-term is projected to be higher than forecast at the time of the 2016 Budget as a result of the investments the government is making in health, education, electricity cost relief, and other public services that matter to Ontario families, partially offset by lower interest on debt expense. Ontario's medium-term outlook for interest on debt expense is currently below the 2016 Budget estimate, primarily as a result of lower-than-forecast interest rates, along with effective and efficient debt management.

TABLE 6.5 Change in Medium-Term Fiscal Outlook since the 2016 Budget

(\$ Billions)

	2016–17	2017–18	2018–19
Surplus/(Deficit) from the 2016 Budget	(4.3)	0.0	0.0
Total Revenue Changes	2.6	3.9	3.0
Expense Changes			
Net Program Expense Changes	1.4	5.3	4.7
Interest on Debt	(0.5)	(0.9)	(1.1)
Total Expense Changes	0.9	4.4	3.6
Change in Reserve	(1.0)	(0.5)	(0.6)
Fiscal Improvement/(Deterioration)	2.8	0.0	0.0
2017 [Document] Surplus/(Deficit)	(1.5)	0.0	0.0

Note: Numbers may not add due to rounding.

Medium-Term Revenue Outlook

Total revenue is projected to increase from \$133.2 billion to \$149.3 billion between 2016–17 and 2019–20, or at an average annual rate of 3.9 per cent. Revenue growth largely reflects the Ministry of Finance's outlook for economic growth. The medium-term revenue outlook includes revised estimates related to the current federal government's commitments for additional health funding for home care and mental health. It also includes projected carbon allowance proceeds and net revenues from the Province's asset optimization strategy.

Building on existing initiatives, including actions to address the underground economy, the government is taking action to strengthen the integrity of the tax system and ensure that everyone pays their fair share. A review of revenues generated from Government Business Enterprises will also be undertaken. This integrated approach will help promote greater fairness and efficiency, and ensure the ongoing integrity of the tax system (see Chapter VII: A Fair and Sustainable Tax System).

Compared with the 2016 Budget forecast, the outlook for revenues are higher over the 2016–17 to 2018–19 period:

Taxation revenues are higher, largely due to stronger economic growth and higher-than-expected revenues from processing past years tax returns. Stronger estimates of economic growth for 2014 to 2016 have increased Ontario's 2016 nominal GDP by \$19.8 billion above the level expected in the 2016 Budget.

Lower **Government of Canada Transfers** in 2016–17 largely reflects lower-than-projected funding for infrastructure projects and the absence of funding for home care as anticipated in the 2016 Budget. The decline in the plan year and the medium term mainly reflects lower projected Equalization payments, partially offset in 2017–18 by higher federal transfer for public transit projects.

Income from Government Business Enterprises is projected to be higher in 2016–17 reflecting stronger overall performance from OLG and LCBO, including the recategorization from Sales and Rentals of the impact of the sale of LCBO's head office lands as part of the Province's asset optimization strategy.

The revenue outlook also includes projected proceeds from the auctioning of carbon allowances beginning in 2016–17. Lower proceeds in 2016–17 reflect revenue from the first auction in March 2017 being certified and settled in fiscal year 2017–18. A lower medium-term outlook also reflects revised projections using more cautious assumptions.

The decrease in **Other Non-Tax Revenue** in 2016–17 is largely due to lower Sales and Rentals revenue recategorized under LCBO net income as indicated above; partially offset by higher revenue from power supply contract recoveries that are fiscally neutral and other miscellaneous revenue sources.

Medium-Term Expense Outlook

The Province's program expense outlook is projected to grow at an average annual rate of 2.9 per cent between 2015–16 and 2019–20. This reflects the government's commitment to invest in priority areas such as health care, education, child care expansion and electricity cost relief programs.

The government has a strong track record in meeting its fiscal targets, and is building on the success of recent initiatives to support the Province's fiscal objectives. The government will expand the review of current programs to identify opportunities for modernization and to ensure that expense growth is managed within the plan laid out in this Budget (see Chapter VI: Section A: Transforming Government for Sustainability and Fairness).

Highlights of the program expense outlook over the medium term include the following:

- **Health sector** expense is projected to grow on average by 3.3 per cent per year between 2015–16 and 2019–20 as a result of targeted funding for hospital services, reduced wait times, new children and youth pharmacare, investments to increase access to primary care, home care and community care, and increased supports for people requiring mental health and addictions services.
- **Education sector** expense is projected to grow on average by 2.8 per cent per year between 2015–16 and 2019–20, mainly due to increased funding to school boards to support enrolment growth and new investments in child care.
- **Postsecondary and training sector** expense is projected to grow on average by 2.5 per cent per year between 2015–16 and 2019–20, mainly due to investments in the Highly Skilled Workforce initiatives and postsecondary infrastructure investments.
- **Children's and social services sector** expense is projected to grow on average by 2.7 per cent per year between 2015–16 and 2019–20, primarily reflecting investments in social assistance and developmental services, as well as funding to support transformation of autism and child welfare services.
- **Justice sector** expense is projected to grow on average by 1.2 per cent per year between 2015–16 and 2019–20, mainly due to reforms to the corrections system, the continuing upload of court security costs from municipalities, the expansion of access to legal aid for low-income Ontarians, appointing more judges, initiatives to support more timely resolution of cases and planned capital investments.
- **Other programs** expense is projected to grow on average by 2.9 per cent per year between 2015–16 and 2019–20, mainly due to electricity cost relief programs under the Fair Hydro Plan, initiatives under the Climate Change Action Plan, and investments in transit and transportation.

The total expense outlook includes interest on debt expense, which is projected to increase on average by 3.6 per cent per year between 2015–16 and 2019–20. This increase is mainly due to borrowing for investment in capital assets.

Fiscal Prudence

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at \$0.6 billion in 2017–18, \$0.6 billion in 2018–19, and \$0.9 billion in 2019–20.

The fiscal plan also includes contingency funds (both operating and capital) to help mitigate expense risks — particularly in cases where health and safety may be compromised or services to the most vulnerable are jeopardized — that may otherwise adversely affect Ontario's fiscal performance.

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COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN (CAATPP)

ISSUE

The Colleges of Applied Arts and Technology Pension Plan (CAATPP) expected 2016-17 expense of \$202M represents an increase of \$15M from the projected 2016-17 expense of \$187M included in the 2016 Budget.

The expected 2016-17 CAATPP expense of \$202M is an increase of \$12M from the \$190M actual expense reported for 2015-16.

Reference: Chapter VI, Section B, Table 6.15 Total Expense

KEY FACTS

2016-17 Interim Budget to Budget

- The \$15M increase in the interim 2016-17 CAATPP expense (\$202M) compared to the 2016-17 expense projected in the 2016 Budget (\$187M) is primarily due to a valuation allowance taken for accounting purposes to write-off plan surpluses, reflecting the recommendations of the Expert Advisory Panel on Pensions.

Year-over-Year

- The \$12M increase in the interim 2016-17 CAATPP expense (\$202M) compared to the reported 2015-16 actual expense (\$190M) is mainly due the \$14M write-off of plan surpluses forecasted in 2016-17, offset by a \$2M decrease in plan expenses. The 2015-16 results do not include a valuation allowance. Excluding the increase in expense due to the valuation allowance of \$14M, 2016-17 forecast CAATPP expenses would have been \$188M, a \$2M decrease from 2015-16.

2017-18 Plan Budget to Budget

- A \$60M increase in the forecasted 2017-18 CAATPP expense (\$232M) compared to the expense projected in the 2016 Budget (\$172M) is mainly due to an increase in current service cost as a result of an increase in the salary growth assumption and increase in interest expense on plan obligations as a result of a reduction in the discount rate. Forecasted expense is further increased over 2016 Budget due to a \$25M valuation allowance taken for accounting purposes to write-off plan surpluses forecasted in 2017-18 reflecting the recommendations of the Expert Advisory Panel on Pensions.

Year-over-Year

- The \$30M increase in the forecasted 2017-18 CAATPP expense (\$232M) compared to the expected expense for 2016-17 (\$202M) is mainly due to an increase in the salary growth rate assumption in 2017-18 and forecasted increases in active membership. 2017-18 expense is further increased due to an \$11M increase in the valuation allowance taken for accounting purposes to write-off plan surpluses forecasted in 2017-18.

BACKGROUND

CAATPP Expense	Table 1 (\$ Millions)			
	Actual 2014-15	Actual 2015-16	Interim 2016-17	Plan 2017-18
2017 Budget	209	190	202	232
2016 Budget			187	172
Increase (Decrease) in Fiscal Plan			15	60

Pension expense reported in both the Province's consolidated financial statements and the Budget are determined in accordance with recommendations of the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA Canada).

PSAS based calculations of pension expense reflect the government's share of the annual cost of pension benefits earned by employees during the year with adjustments for the government's share of gains or losses experienced by the plan, interest on the net pension liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a pension plan in a particular period does not represent pension expense for financial reporting purposes which are calculated on a PSAS basis. Rather, contributions are calculated based on actuarial valuations conducted for funding purposes which are intended to ensure that a pension plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (12.9 years for CAATPP), starting in the subsequent fiscal year.

During 2016-17, the Province engaged an Expert Advisory Panel on Pensions to review the Province's accounting treatment for CAATPP. The Panel concluded that the existing governance structure related to the CAATPP, a multi-employer plan, does not allow the government to have a reasonable expectation of benefitting from net asset surpluses through future contribution reductions. The government accepted the Panel's recommendations and starting with the 2016-17 Public Accounts will be reflecting a reduction in pension related balance reported on the Province's books. This change will impact the Province's annual surplus/deficit results.

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HEALTHCARE OF ONTARIO PENSION PLAN (HOOPP)

ISSUE

The Healthcare of Ontario Pension Plan (HOOPP) estimated 2016-17 expense of \$628M represents a decrease of \$3M from the projected 2016-17 expense of \$631 in the 2016 Budget.

The interim 2016-17 HOOPP expense of \$628M is a decrease of \$119M from the \$747M actual expense reported for 2015-16.

Reference: Chapter VI, Section B, Table 6.15 Total Expense

KEY FACTS

2016-17 INTERIM

Budget to Budget

- The \$3M decrease in the interim 2016-17 HOOPP expense (\$628M) compared to the 2016-17 expense projected in the 2016 Budget (\$631M) is mainly due to a lower than projected current service cost over the prior year forecast.

Year-over-Year

- The \$119M decrease in the interim 2016-17 HOOPP expense (\$628M) compared to the reported 2015-16 actual expense (\$747) is mainly due to an increase in recognition of prior years' experience gains and higher interest earnings as a result of an increase in the plan asset base. Decreases in year-over-year expenses are partially offset by higher current service costs as a result of an expected increase in active membership in 2016-17.

2017-18 PLAN

Budget to Budget

- 2017-18 HOOPP expense (\$554M) increased by \$6M compared to the expense projected in the 2016 Budget (\$548M). The increase is primarily due to a valuation allowance of \$102M taken for accounting purposes to write-off plan surpluses forecasted in 2017-18, reflecting the recommendations of the Expert Advisory Panel on Pensions. Excluding the increase due to the valuation allowance of \$102M, 2017-18 HOOPP expenses would have been forecasted at \$452M, a \$96M decrease from 2016 Budget. The decrease is mainly due to lower service costs as a result of reducing the salary growth assumption in the 2017 Budget, and higher than expected returns on assets forecasted over the 2016 Budget.

Year-over-Year

- The \$74M decrease in the forecasted 2017-18 HOOPP expense (\$554M) compared to the expected expense for 2016-17 (\$628M) is primarily due to higher than expected investment returns in the prior years and dropping off of amortization of prior year experience losses, and higher interest earned on increasing pension plan assets. Decreases in year over year expenses are partially offset by higher current service costs as a result of an expected increase in active membership and salary growth in 2017-18 and the \$102M valuation allowance taken for accounting purposes to write-off plan surpluses forecasted in 2017-18, reflecting the recommendations of the Expert Advisory Panel on Pensions.

BACKGROUND

HOOPP Expense	Table 1 (\$ Millions)			
	Actual 2014-15	Actual 2015-16	Interim 2016-17	Plan 2017-18
2017 Budget	843	747	628	554
2016 Budget			631	548
Increase (Decrease) in Fiscal Plan			(3)	6

Pension expense reported in both the Province's consolidated financial statements and the Budget is determined in accordance with recommendations of the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA Canada).

PSAS based calculations of pension expense reflects the government's share of the annual cost of pension benefits earned by employees during the year with adjustments for the government's share of gains or losses experienced by the plan, interest on the net pension liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a pension plan in a particular period does not represent pension expense for financial reporting purposes which are calculated on a PSAS basis. Rather, contributions are calculated based on actuarial valuations conducted for funding purposes which are intended to ensure that a pension plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (12.8 years for HOOPP), starting in the subsequent fiscal year.

During 2016-17, the Province engaged an Expert Advisory Panel on Pensions to review the Province's accounting treatment for HOOPP. The Panel concluded that the existing governance structure related to the HOOPP, a multi-employer plan, does not allow the government to have a reasonable expectation of benefitting from net asset surpluses through future contribution reductions. The government accepted the Panel's recommendations and has reflected a reduction in the pension related balance beginning in fiscal 2017-18, the first year of forecasted net asset surpluses for the HOOPP. This change will impact the Province's annual surplus/deficit results.

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OPS EMPLOYEE AND PENSIONER BENEFITS

ISSUE

The OPS Employee and Pensioner Benefits expense of \$1,163M for 2016-17 is expected to be line with what was projected in 2016 budget. The OPS Employee and Pensioner Benefits expense forecast of \$1,208M for 2017-18 is projected to increase by \$148M compared to the \$1,060M that was forecasted in the 2016 Budget.

The 2017-18 OPS Employee and Pensioner Benefits expense of \$1,208M is expected to increase by \$45M compared to the 2016-17 expense forecast of \$1,163M.

Compared to the 2015-16 actual expense of \$987M, the OPS Employee and Pensioner Benefits expense is expected to increase by \$176M to \$1,163M in 2016-17.

Reference: Chapter VI, Section B, Table 6.15 Total Expense

KEY FACTS

- The OPS Employee and Pensioner Benefits expense is primarily comprised of the annual expenses associated with the Public Service Pension Plan, OPSEU Pension Plan, non-pension retirement benefits, post-employment benefits and other benefits. The overall change in the total expense is attributed to the following components:
 - Public Service Pension Plan (PSPP)
 - 2016-17 interim expense forecast is higher than the 2016 Budget mainly as a result of higher than expected salary increases for some members of the PSPP resulting in higher than expected costs through the supplementary pension plan.
 - The 2017-18 expense forecast is higher than forecasted in the 2016 Budget mainly as a result of a reduction in the discount rate and higher interest expense on the resulting plan obligations. Other contributing factors to higher forecasted expenses for 2017-18 were lower than expected employee contributions due to lower increase in active members in 2016 -17 than forecasted. Increases in forecasted expenses were partially off-set by a reduction in service costs due to the lower than expected increases in active members to the plan and a reduction in the plan's long-term salary growth assumption.
 - OPSEU Pension Plan
 - The 2016-17 interim pension expense is in line with the 2016 Budget forecast.
 - Both a reduction in the discount rate and lower than expected actual 2016 investment returns on plan asset contributed to 2017-18 expense forecast being higher than forecasted in 2016 budget. In addition this also contributed to the increase in forecasted expense by \$15M from 2016-17 to 2017-18.
 - The forecasted 2016-17 interim expense is expected to decrease by \$46M from 2015-16 actuals, as a result of the amortization of previously unrecognized investment gains.
 - Non-Pension Retirement Benefits, Post-Employment Benefits and Other Benefits
 - Updated benefit claim assumptions for employees currently on Long-Term Income Protection (LTIP), and revised calculations of pension liability of the small pension plans held in the consolidated revenue fund both contributed to higher expense for Post-Employment and Other Benefits for the interim and plan years compared to 2016 Budget.
 - The Other Retirement benefits expense for the interim and plan years have been updated for the most recent Ontario Provincial Police Association (OPPA) funding agreement. This resulted in the 2017 Budget forecast to be lower than 2016 Budget forecast.

2015-16 Actuals include one time savings from plan change for OPSEU employees to cap termination pay accrued up to December 31, 2016 and changes to the OPSEU LTIP benefits.

FISCAL IMPLICATIONS

Employee and Pensioner Benefits				
	(\$ Millions)			
	Actual 2014-15	Actual 2015-16	Interim 2016-17	Plan 2017-18
2017 Public Service Pension Plan	568	519	545	581
2017 OPSEU Pension Plan	219	177	131	146
2017 Other Non-Pension Retirement Benefits	319	393	283	312
2017 Post-Employment and Other Benefits	80	(102)	204	169
2017 Budget	1,186	987	1,163	1,208
2016 Public Service Pension Plan			517	440
2016 OPSEU Pension Plan			135	98
2016 Other Non-Pension Retirement Benefits			350	358
2016 Post-Employment and Other Benefits			151	164
2016 Budget			1,153	1,060
Increase in Public Service Pension Plan			28	141
(Decrease)/Increase in OPSEU Pension Plan			(4)	48
Decrease Other Non-Pension Retirement Benefits			(67)	(46)
Increase in Post-Employment Benefits			53	5
Increase in Fiscal Plan			10	148

BACKGROUND

The OPS Employee and Pensioner Benefits expense includes Public Service Pension Plan (PSPP) expense, OPSEU Pension Plan expense, and other non-pension retirement benefits expense (dental, basic life insurance, supplementary health and hospital benefits for retired employees), post-employment benefits (LTIP, WSIB, Legislated Severances) and other benefits (i.e. small pension plans held in consolidated revenue fund).

Expenses reported in both the Province's Consolidated Financial Statements and the Budget are determined consistently in accordance with recommendations of the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA).

The PSAS basis for calculating pension and non-pension retirement benefits expense reflects the government's share of the cost of retirement benefits earned by employees during the year with adjustments to reflect the government's share of gains or losses experienced by the plan, interest on the net retirement benefits liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a retirement benefit plan (i.e. pension and non-pension retirement plan) in a particular period does not represent retirement benefits expense on a PSAS basis. This contribution is calculated through an actuarial valuation for funding purposes and ensures that a retirement benefits plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (10.8 years for PSPP and 12.5 years for OPSEU) starting in the subsequent fiscal year.

OPSEU Pension Plan is currently reporting a net pension asset position (i.e. since 2001-02). A net pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. The government records the pension net asset to the extent the government expects to benefit from the asset through future reductions in contributions to the plan.

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TEACHERS' PENSION PLAN (TPP)

ISSUE

The Teachers' Pension Plan (TPP) income (i.e. negative expense) is expected to increase by \$29M from forecasted \$502M in 2016-17 to \$531M in 2017-18.

The TPP income forecast of \$531M in 2017-18 is projected to decrease by \$289M compared to the \$820M income forecasted in 2016 Budget.

TPP income for 2016-17 of \$502M is expected to increase by \$50M compared to \$452M forecasted of in the 2016 Budget.

TPP is expected to report net income of \$502M (i.e. negative expense) in 2016-17, compared to the actual 2015-16 TPP expense of \$110M, a change of \$612M year over year.

Reference: Chapter VI, Section B, Table 6.15 Total Expense

KEY FACTS

- The Teachers' Pension Plan (TPP) has experienced favourable investment returns in the past several years (i.e. 2009 to 2015).
- The expected income on the excess of the assets in the plan over the present value of the obligations to the employees, and the cumulative effect of the investment gains earned from prior years (i.e. 2009-2015) is more than sufficient to offset the Province's share of the cost of pension benefits that were earned by Plan members in 2017-18. This has resulted in income (i.e. negative pension expense) forecasted for 2017-18.
- The TPP income forecast for 2017-18 has decreased compared to what was initially forecast in the 2016 Budget. This is primarily due reduction in the discount rate, and lower than expected market returns on pension fund assets in calendar 2016. The decrease is partially offset by lower salary escalation expectation, as well as lower than expected inflation.
- The TPP income forecast for 2016-17 has increased by \$50M compared to the income forecast in the 2016 Budget due to a lower than expected rate of growth in active members.
- The projected change of \$612M, from 2015-16 actual expense of \$110M compared to 2016-17 projected income of \$502M is due to increased recognition of investment gains on fund assets earned from 2009 to 2015.

BACKGROUND

Teachers' Pension Plan Expense/(Income)				
	(\$ Millions)			
	Actual 2014-15	Actual 2015-16	Interim 2016-17	Plan 2017-18
2016 Budget	564	110	(502)	(531)
2015 Budget			(452)	(820)
Increase/(Decrease) in Fiscal Plan			(50)	289

Pension expenses reported in both the Province's consolidated financial statements and the Budget are determined in accordance with the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA).

PSAS based calculations of pension expense reflects the government's share of the annual cost of pension benefits earned by employees during the year with adjustments for the government's share of gains or losses experienced by the plan, interest on the net pension liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a pension plan in a particular period does not represent pension expense for financial reporting purposes. Rather, contributions are calculated based on actuarial valuations conducted for funding purposes which are intended to ensure that a pension plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (15.2 years) starting in the subsequent fiscal year.

Teachers' Pension Plan (TPP) is currently reporting in a net pension asset position (i.e. since 2001-02). A net pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. The government records the pension net asset to the extent the government expects to benefit from the asset through future reductions in contributions to the plan.

Year-over-Year Increases Over Outlook Period

TPP expense decreased by \$454M from \$564M in 2014-15 to \$110M in 2015-16 mainly due to increased recognition of investment gains earned on the fund assets from 2009 to 2014.

The projected change of \$612M, from 2015-16 actual expense of \$110M compared to 2016-17 projected income of \$502M is mainly due to greater recognition of investment gains earned from 2009 to 2015, a revised lower salary escalation expectation, as well as lower than expected inflation. This decrease is partially offset by reduction in discount rate in 2015-16.

The 2017-18 TPP income is projected to further increase compared to 2016-17 projected income. This is mainly due to greater recognition of investment gains earned from 2009 to 2015, lower salary escalation expectation and lower than expected inflation. The increases is partially offset by impacts of a further reduction in discount rate for 2016-17 and lower than expected market returns on plan assets in 2016.

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