Fiscal Update Deck

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Purpose

To present the fiscal architecture that will inform the development of the 2018 Document, including:

I. A recap of the fiscal plan as outlined in the 2017 Budget and FES

II. An update on the current fiscal outlook, including 2017-18

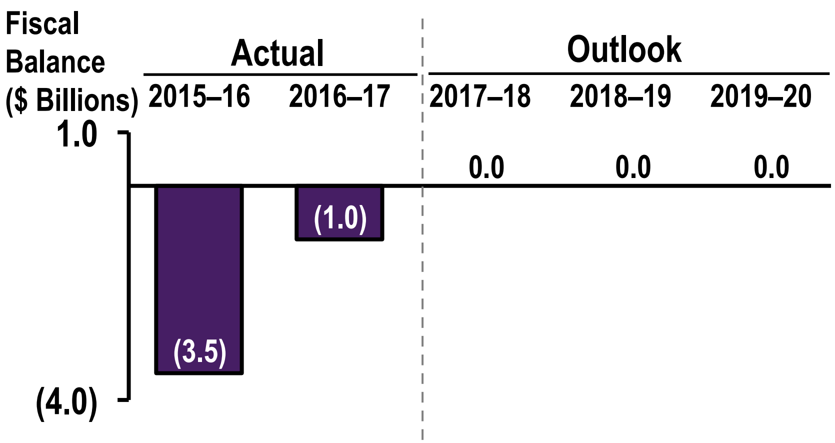
III. Guiding principles and key decisions to shape the fiscal plan moving forward

PART I: Fiscal Recap

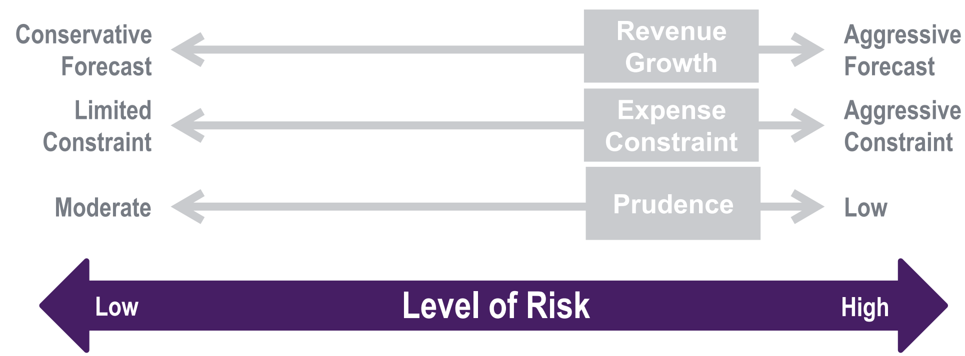
Recapping the 2017 Budget and FES Fiscal Architecture

- ***Aggressive assumptions*** *were taken at the time of the Budget and maintained in the Fall Economic Statement in order* ***to project balanced budgets*** *over the outlook.*
- *Assumptions should be revisited as part of the development of the 2018 Document fiscal plan.*

2017 Budget and FES Fiscal Projections



The Underlying Fiscal Architecture



Key Revenue Assumptions

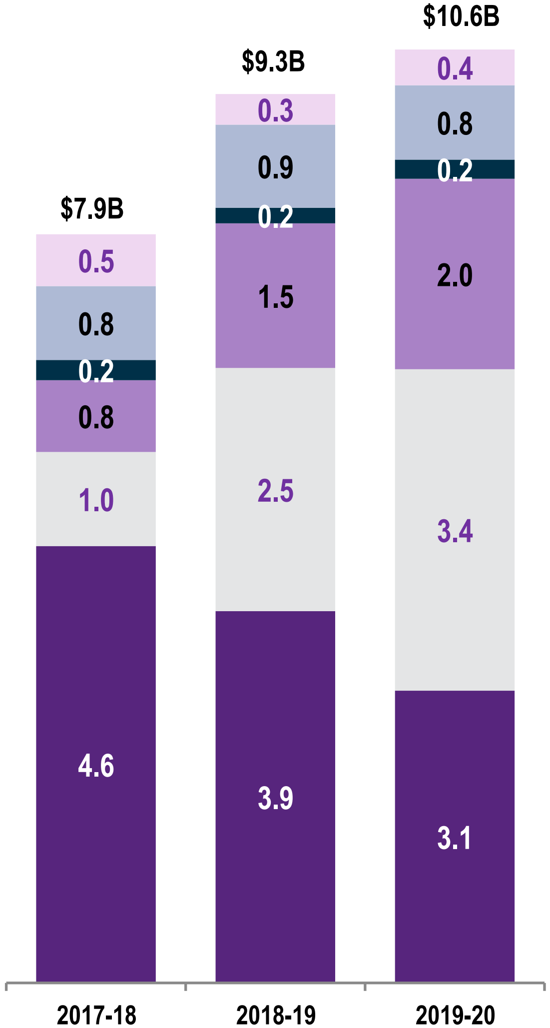
- **Revenue growth continues at a stronger pace than would normally be forecast given the economic outlook** and removes prudence from the nominal GDP forecast as well as assumes a modest slowing of the housing market.
- **Zero PIT tax planning** and **High-Yield Tax assumptions** of $1.9 billion in 2017–18, $2.5 billion in 2018–19, and $2.8 billion in 2019–20
- **Revenue Integrity Targets** of $0.1 billion in 2017–18, growing to $0.4 billion in 2019–20
- **Impact of accounting/declining Equalization not built into plan**

Key Expense Assumptions

- The 2017 FES projected program expense to grow **$14.2 billion from 2016-17 to 2019-20**, an increase of 3.5%.
- **Low contingency** fund amounts in 2017-18 and 2018-19.
- **Year–end Savings** targets of over $1 billion in each year and **Program Review Savings** targets of $0.8 billion in 2018–19 and 2019–20.
- Limited **Interest-on-Debt** prudence over 2017-18 and 2018-19.

Historically low reserve of $0.5 billion in 2017–18 and 2018–19, $0.8 billion in 2019–20.

Significant New Investments in 2017 Budget



Postsecondary and Training

- Includes funding to support reforms to OSAP and the Highly Skilled Workforce Initiative.

Children's and Social Services

- Includes funding to support Social Assistance, Developmental Services, Basic Income Pilot, Autism Reform and Child Welfare Reform.

Justice Sector

- Includes funding for Action Plan for Reconciliation, Corrections Reform and Compensation.

Education

- Includes funding for Child Care Expansion and higher than projected enrolment.

Health

- Includes hospital base funding, OHIP, and drug program.

Other Programs

- Includes Fair Hydro Plan and Greenhouse Gas Reduction Account.

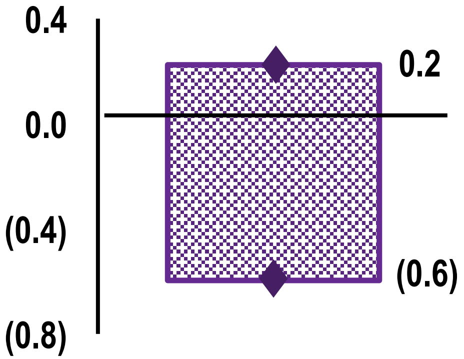
PART II: Revenue and Expense Updates

2017-18 Early Read

An early read suggests a balanced budget may be achievable. Compared to the 2017 Budget:

- **In-year expense approvals** are being managed from ***within*** the 2017 Budget plan**.** However, one quarter of the fiscal year remains, year-end savings have not been achieved, and contingency fund room is limited.
- **Excluding fiscally neutral revenue changes, the revenue forecast has increased by $0.2B**. *(Total revenue has deteriorated by $0.7 billion).*
  - **This includes the revenue forecast for Cap and Trade being $0.5B above the budget plan.**

Early-Read Range of Year-End Results



Assumptions in Current 2017-18 Range

YEAR END SAVINGS TARGET

Currently $0.3 billion of the $1.2 billion savings target has been identified. The top end of the range assumes an additional $0.4 billion in savings is found. It is assumed that $0.5 billion will not be met (fiscal impact mitigated by reserve).

REVENUE AND EXPENSE RISKS

Considerable information is still to come that may impact the 2017-18 fiscal outlook. The current range includes $0.4B to accommodate revenue and expense risks that may materialize by year-end.

- **Current revenue risks** being tracked include the finalization 2016 tax assessments, the next C&T auction, impact of OEB decision on Hydro One deferred tax benefit.
- **Current Q3 expense pressures** reported in the Children and Social, Education and Justice sectors.

RESERVE

$0.5B reserve is used to improve the fiscal outlook.

Size of Range

$0.4B of savings to be found for YES

+ $0.4B of flexibility for known risks

= $0.8B Potential range

Outlook for Slower Economic Growth

Y/Y % Growth	2014	2015	2016	Estimate 2017	--> Forecast 2018	2019	2020
Real GDP	2.7%	2.9%	2.6%	2.8%	2.1%	2.0%	2.0%
Nominal GDP	4.4%	5.0%	4.3%	5.3%	4.1%	4.1%	4.2%
Compensation of Employees	3.4%	4.6%	3.4%	4.3%	4.7%	4.8%	4.4%
Net Operating Surplus-Corporations	11.2%	7.1%	7.3%	16.1%	2.9%	2.8%	3.7%
Household Consumption	4.9%	4.1%	4.2%	5.0%	4.3%	4.4%	4.3%
Housing Resale (units)	3.8%	9.5%	9.5%	-8.1%	2.8%	3.2%	3.4%
Housing Price	6.9%	7.8%	15.4%	7.4%	5.4%	5.2%	5.0%

Source: 2017 Ontario Economic Outlook and Fiscal Review

- Growth projected to continue, but at a more modest pace due to:
  - economy reaching full capacity
  - rising interest rates
  - uncertainty regarding impact of U.S. economic policy.
- Economic outlook to be updated based on new data (e.g. Ontario 2017Q3 Economic Accounts) and private sector forecast revisions (Minister’s meeting).

Current Revenue Outlook

Revenue outlook below prepared consistent with approach used every year as part of Budget planning and would be compliant with requirements for a Pre Election Report. Key assumptions include:

- Economic growth outlook based on average of private sector forecasts with a prudence adjustment of 0.1 percentage point in each year from 2018 to 2021.
- Taxation revenues are estimated based on the latest revenue collection, entitlement and assessment information, with growth model-based average yields driven largely by the economic forecast, incorporating all measures announced to date.
- Federal transfer payments based on existing agreements and formulae, with additional amounts included for anticipated new agreements in homecare, mental health, social housing and major labour market transfer programs.
- Government business enterprise net income based on the latest available information provided, incorporating the estimated consolidation adjustment for moving to IFRS accounting and Ontario Energy Board rate decision.
- NTR updates from the 2018 PRRT process.

	$ Billions							*Average Growth (%)*	
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	***2014-15 to 2017-18***	***2018-19 to 2020-21***
Taxation Revenue	82.3	91.8	94.3	99.7	102.7	107.1	111.9	*5.7%*	*3.9%*
Government of Canada	21.9	23.1	24.5	25.4	25.8	25.7	26.3	*3.0%*	*1.1%*
Income from GBEs	5.6	4.9	5.6	5.1	4.9	5.2	5.6	*-1.0%*	*2.6%*
Other Non-Tax Revenue	16.3	16.3	16.3	19.1	17.2	17.4	17.7	*6.0%*	*-2.5%*
Total Revenue	**126.2**	**136.1**	**140.7**	**149.3**	**150.7**	**155.3**	**161.4**	***5.0%***	***2.6%***

Note: numbers may not add to totals due to rounding.

Revenue Comparison to Budget

	Current Outlook				2017 Budget				Change from 2017 Budget			
$ Billions	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Taxation Revenue	99.7	102.7	107.1	111.9	100.1	105.4	110.3	na	-0.4	-2.7	-3.3	na
Government of Canada	25.4	25.8	25.7	26.3	26.1	25.7	25.2	na	-0.7	0.1	0.5	na
Income from GBEs	5.1	4.9	5.2	5.6	4.9	5.7	6.0	na	0.2	-0.8	-0.8	na
Other Non-Tax Revenue	19.1	17.2	17.4	17.7	19.0	16.7	16.7	na	0.1	0.6	0.6	na
Total Revenue	**149.3**	**150.7**	**155.3**	**161.4**	**150.0**	**153.5**	**158.2**	**na**	**-0.7**	**-2.9**	**-2.9**	**na**

Note: numbers may not add to totals due to rounding.

- **Taxation Revenue** reflects economic growth (↑), 2016 tax assessments (↓), housing market (↓) and average corporate income tax revenue yields (↓).
- **Government of Canada transfers** change due to revised infrastructure timing (↓/↑), Equalization entitlements (↓), and Canada Health and Social Transfers (↑).
- Income from **Government Business Enterprises** changes mainly due to IFRS accounting (↓), OEB decisions to date (↓) and interim OLG update (↑).
- **Other Non-Tax Revenue** changes mainly due to carbon allowance proceeds (↑) and Broader Public Sector revenues (↑). These are largely fiscally neutral.

Next Steps and Key Revenue Risks

1. Update outlook for new information on an ongoing basis, including:
   - Changes in private sector economic forecasts (=)
   - Finalization of 2016 tax assessments (=)
   - Updates for GBEs (+)
   - Ontario Energy Board (OEB) decision on deferred tax assets (-)
   - Federal Budget (?)
   - OPG / IFRS and other consolidation adjustments (=)
   - Pre-harmonized corporations tax appeals (-)
   - Accounting treatment of NRST (+)
   - Housing / LTT forecast update (-)

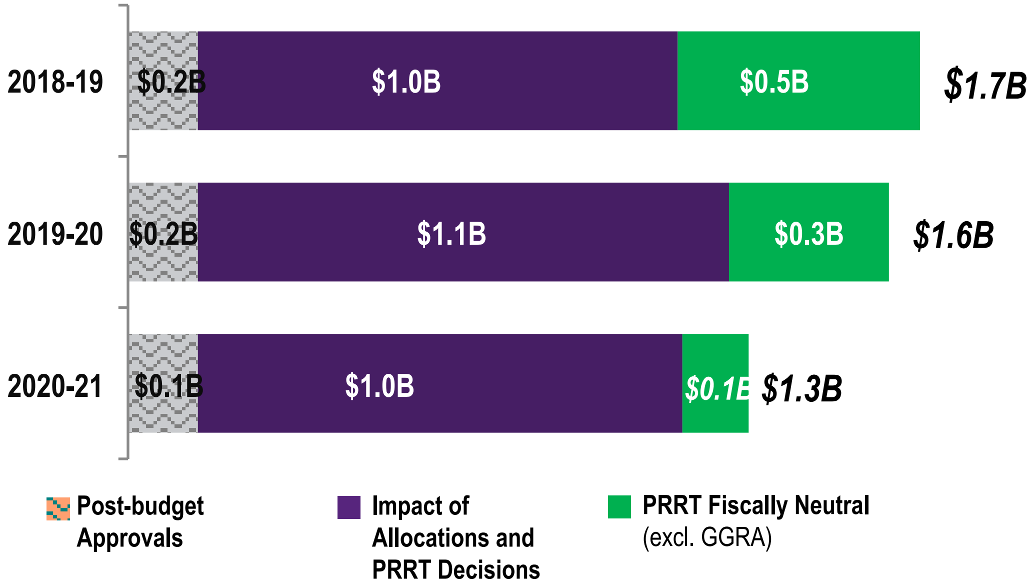
2. Minister's meeting with private sector economists

3. Explore options for alternative revenue growth assumptions.

Expense Update

- The PRRT process has resulted in an additional $1.3 billion to $1.7 billion in annual program expense changes compared to the 2017 Budget.
  - The changes reflect a combination of annualizing post 2017 budget decisions, PRRT decisions to address pressures within existing programs, and fiscally neutral items.

Status of Allocations + PRRT Decisions



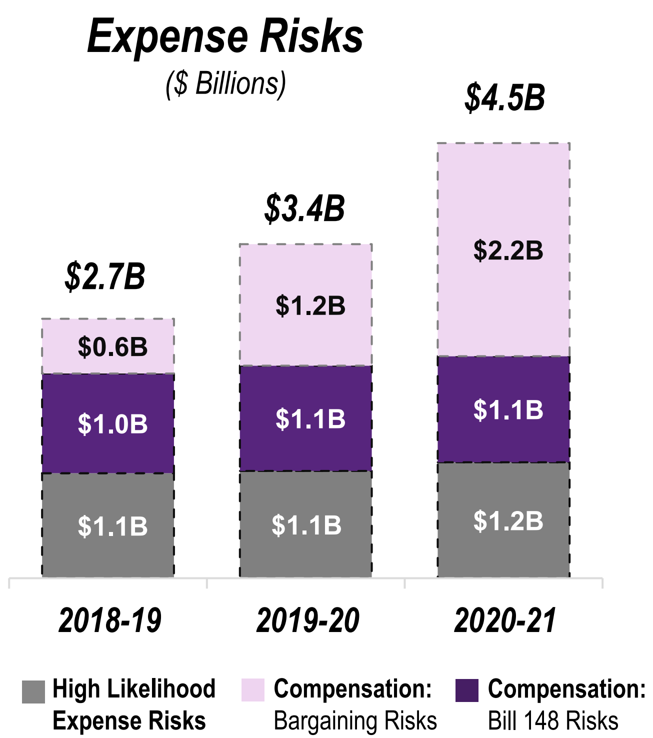
Note: Amounts above do not include potential 2018 Document initiatives or Risks

Interest on Debt Update

- Compared to the 2017 Budget, potential interest on debt savings of $0.3 and $0.4 billion in 2019-20 and 2020-21, respectively, are being projected.
- These savings are dependent on: continued balanced budgets, capital investments that do not exceed current approved projections and actual interest rates coming in at forecast levels.

Expense Risks

- Through the 2018-19 PRRT process, over $2.5B in risks were identified in each year over the outlook. TBS is currently undertaking a review of all risks. At this time, the major areas of risk include:
  - **High-likelihood ministry risks** are estimated to be over $1.0 billion in all years.
  - **Compensation risks** total $1.6 billion in 2018-19 growing to $3.3 billion in 2020-21.



Risk Management Strategy

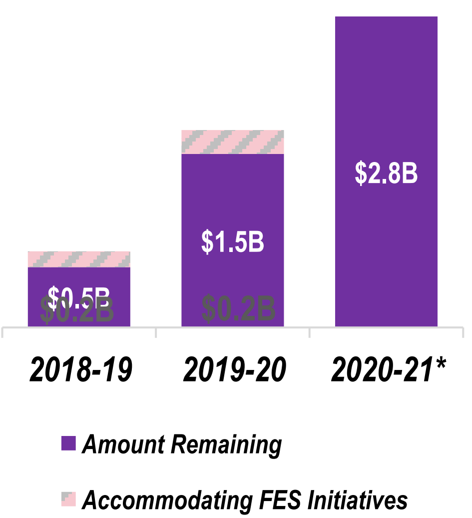
A blended approach to risk management could be employed:

- *Some ministries are asked to manage risks within their overall allocation (e.g. MOHLTC), while other ministries are required to manage to a level below their allocation (e.g. 95%) with limited exception. This is consistent with prior year practice, maintaining a healthy tension and ensuring transformation efforts continue.*
- *Quarterly reporting would be used to monitor, with expectations that ministries achieve progress in managing down and accommodating any new and emerging risks within their allocations.*
- *The contingency fund is made available only for unavoidable risks that vary each year and historically funded (e.g. forest firefighting and business risk management) and some cases where funds are set aside for a specific risk (e.g. compensation).*

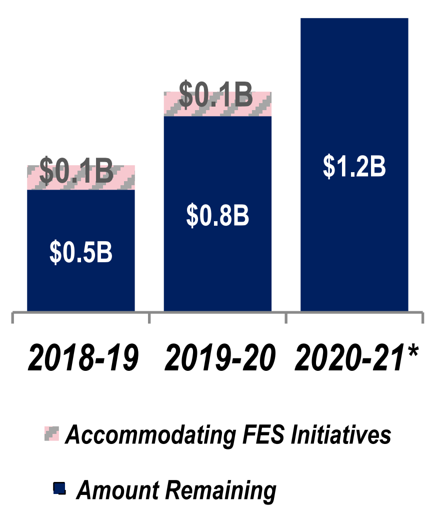
Limited Prudence in the Fiscal Plan

- Investing in FES signature initiatives while maintaining a balanced budget outlook required drawing on the Reserve and contingency funds in 2018-19 and 2019-20. Otherwise, prudence over the outlook is unchanged from the 2017 Budget.
- Aggressive savings targets (i.e., Year-end Savings, Program Review, and Boulder Savings targets) combined with low reserves and historically low contingency funds have stripped much of the prudence from the fiscal plan.

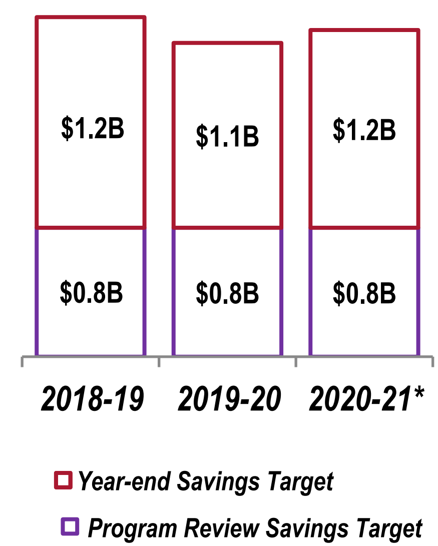
Balance of Contingency Funds



Balance of Reserves



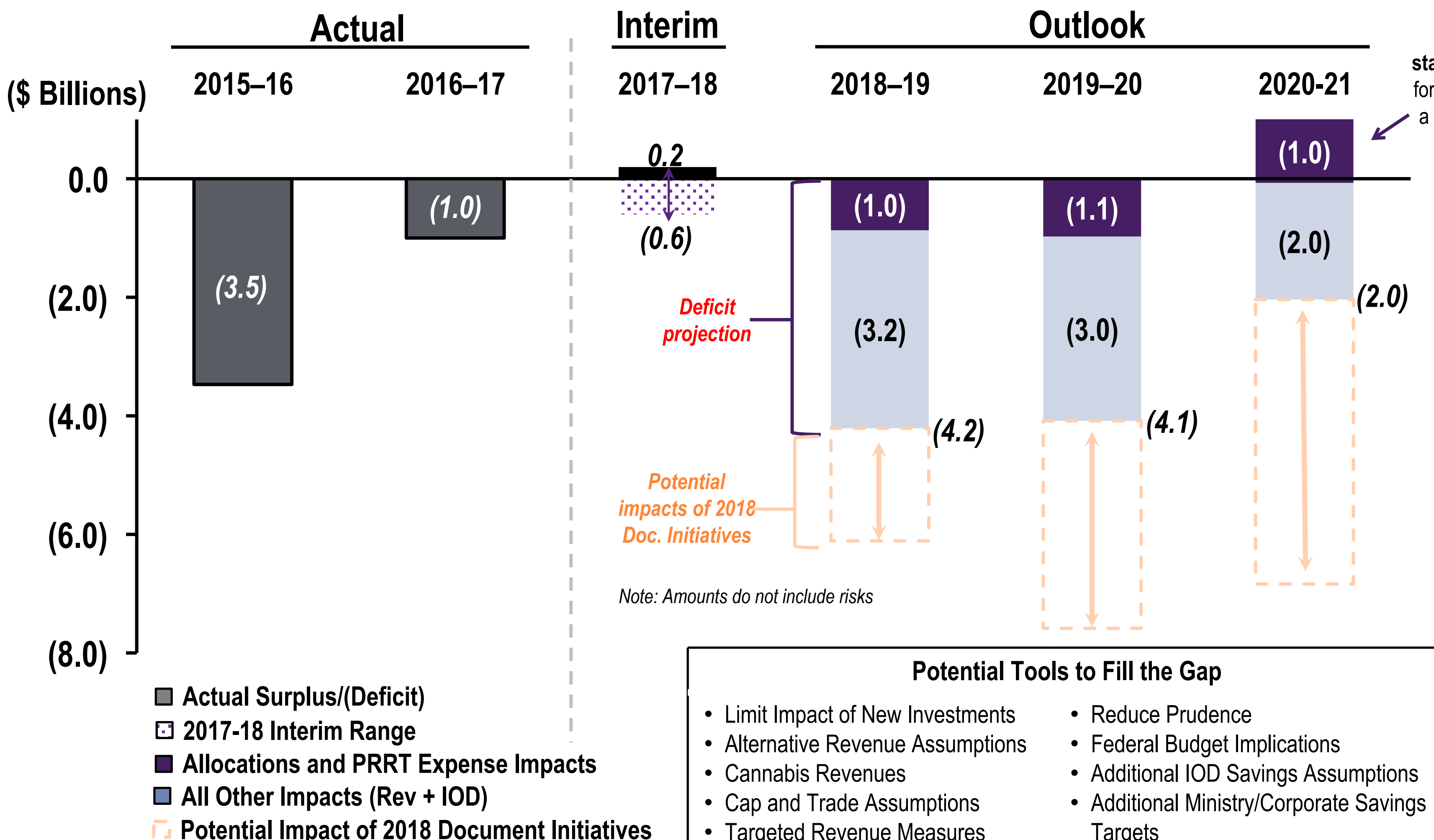
Savings Targets



Note: Contingency funds include set-asides of $0.3 billion in 2018-19, $0.7 billion in 2019-20 and $0.9 billion in 2020-21 for Moving Ontario Forward and Ring of Fire as well as a set asides for the impact of OMA (2.6% mandate).
**2020-21 prudence levels will be refined through the PRRT and Document planning process. Above amounts reflect the starting point for planning.*

Resulting Range of Potential Fiscal Trajectories

- Preliminary allocations as well as decisions made through the PRRT process result in a gap of $1.0 billion in 2018-19, $1.1 billion in 2019-20 relative to the 2017 Budget.
- Adding the impact of updated revenue and interest on debt forecasts result in deficits of $4.2 billion in 2018-19, $4.1 billion in 2019-20 and $2.0 billion in 2020-21.
- The range of potential 2018 Document Initiatives (see appendix) could increase the deficit to $6.1 billion in 2018-19, $7.6 billion in 2019-20, and $6.8 billion in 2020-21.



Potential Tools to Fill the Gap

- Limit Impact of New Investments
- Alternative Revenue Assumptions
- Cannabis Revenues
- Cap and Trade Assumptions
- Targeted Revenue Measures
- Reduce Prudence
- Federal Budget Implications
- Additional IOD Savings Assumptions
- Additional Ministry/Corporate Savings Targets

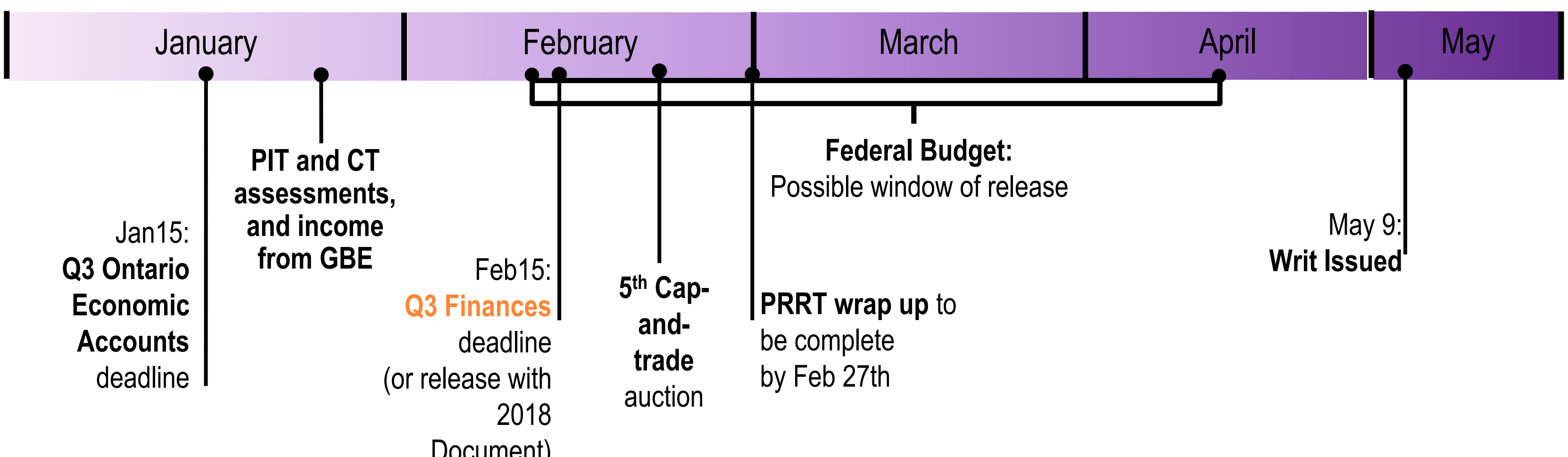
Forthcoming Information will Impact the Fiscal Outlook

Revenue

- Economic updates
- Finalization of 2016 and prior year PIT and CIT tax assessments
- Provincially-administered taxation revenue collections, notably LTT
- Government Business Enterprises net income projections
- Implications of Federal Budget and federal transfer payment updates, e.g. infrastructure
- Final PRRT NTR decisions
- Estimated proceeds from 5th 2017-18 cap-and-trade auction
- Electricity Sector and Asset Optimization updates

Expense

- Final PRRT decisions
  - Including GGRA wrap-up decisions
- Ministry Interim/Q3
- Tax credit forecasts
- Consolidation Impacts/ Adjustments
- Pension Expense Updates
- Interest on debt forecast updates
- Impact of expense pressures that ministries have been asked to manage from within
- 2018 Document initiative decisions
- Implications of Federal Budget (cost matching requirements)



Net Debt-to-GDP

- The FES projected a net debt to GDP ratio of 37.3% for 2017-18, 37.1% for 2018-19 and 37.0% in 2019-20, lower than at the time of the 2017 Budget.
- As projected in the FES, the net debt-to-GDP target of 35% by 2023-24 and 27%, projected to be achieved by 2029-30 remained unchanged from projections in the 2017 Budget.
- Factors impacting growth in the net debt-to-GDP ratio include accumulated deficits and net investments in capital assets as well as the outlook for the economy (GDP).
- Maintaining a ratio of net debt-to-GDP at 37.3% out to 2020-21 in the 2018 Budget assumes capital investments are unchanged from current (FES) approved levels and actual GDP remains consistent with projections
    - This would allow for deficit amounts up to:
        - $2.2 billion for 2018-19
        - $0.8 billion for 2019-20
        - $2.9 billion for 2020-21
- Assuming all of the flexibility is utilized, and a balanced budget is maintained from 2021-22 onward, the 35% interim target can still be maintained with these three new deficit amounts. However, the 27% target projected for 2029-30 will be missed.
- Alternatively, a 0.1% decline in the net debt-to-GPD ratio over each year of the outlook (i.e., 37.3% for 2017-18, 37.2% for 2018-19, 37.1% for 2019-20 and 37.0% for 2020-21) would allow, all else being unchanged from the FES, for deficit amounts up to:
        - $1.2 billion for 2018-19
        - $0 for 2019-20
        - $1.9 billion in 2020-21
- In this scenario, both the interim and 2029-30 targets will be met.

PART III: 2018 Document Key Considerations

Guiding Principles in Shaping the Fiscal Plan

FISCAL PLAN

Balance responsible fiscal management with continuing to invest in economic competitiveness and public services.

- *Ensure that fiscal anchors accommodate both investments in government priorities and position the Province for short, medium, and long-term sustainability.*

NET DEBT-TO-GDP

The net debt-to-GDP forecast reflects the capital plan, the outlook for the economy, and remains on a declining track.

REVENUE

Ground a revenue forecast in the economic outlook for Ontario and globally, as well as government policy direction.

- *Ensure forecast is credible to external scrutiny.*

EXPENSE

Develop a framework to prioritize spending on investments that support the government's priorities while maintaining an efficient/effective use of resources that generate outcomes.

- *Keep tension in the system to ensure transformation continues. Consider demographic reality and inter-generational fairness.*

PRUDENCE

Build enough prudence in the plan to allow for unforeseen developments, known impacts to come and commensurate with overall level or risk taken on in the fiscal plan – more risk requires more prudence.

Next Steps

✓ STAGE 1 – Update on current fiscal plan	
MMP Discussion January 24	• Provide Fiscal Update • Overview 2018 Document key themes and timelines • Potential signature initiatives
Cabinet Retreat January 30	• Provide high-level Fiscal Update • Overview 2018 Document key themes and timelines • Potential signature initiatives
STAGE 2 – Key decisions on fiscal architecture	
• Determine acceptable tools and develop options for fiscal outlook • Prioritize investments to help determine envelope • Determine fiscal anchors	
STAGE 3 – Fiscal architecture/Outlook planning for the 2018 Document	

APPENDIX

Fiscal Performance: *Actual 2013-14 to FES 2017-18*

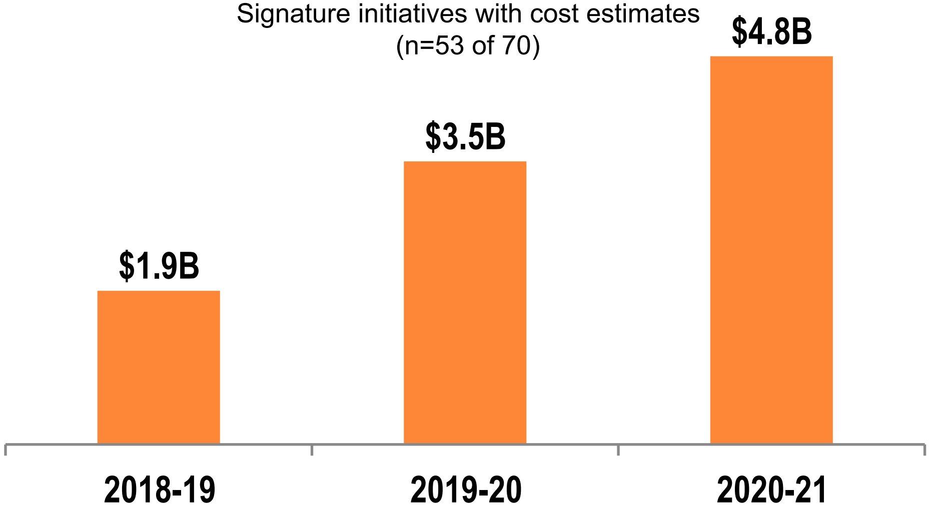
($ Millions)		2013-14	2014-15	2015-16	Actual 2016-17	FES 2017-18	Avg. Ann. Growth 2013-14 to 2017-18
Revenue							
Taxation Revenue		79,966	82,275	91,818	94,346	99,867	*5.7%*
	y-o-y growth		*2.9%*	*11.6%*	*2.8%*	*5.9%*	
Government of Canada		22,579	21,923	23,141	24,544	26,225	*3.8%*
	y-o-y growth		*-2.9%*	*5.6%*	*6.1%*	*6.8%*	
Government Business Enterprises		5,337	5,615	4,909	5,567	5,088	*-1.2%*
	y-o-y growth		*5.2%*	*-12.6%*	*13.4%*	*-8.6%*	
Other Non-Tax Revenue		15,073	16,339	16,280	16,277	18,954	*5.9%*
	y-o-y growth		*8.4%*	*-0.4%*	*0.0%*	*16.4%*	
Total Revenue		**122,955**	**126,152**	**136,148**	**140,734**	**150,134**	*5.1%*
	y-o-y growth	*2.2%*	*2.6%*	*7.9%*	*3.4%*	*6.7%*	
Program Expense							
Health Sector		52,608	54,035	54,945	55,969	57,953	*2.4%*
	y-o-y growth	*2.7%*	*2.7%*	*1.7%*	*1.9%*	*3.5%*	
Education Sector		24,421	25,505	25,967	26,580	27,691	*3.2%*
	y-o-y growth	*8.0%*	*4.4%*	*1.8%*	*2.4%*	*4.2%*	
Postsecondary Sector		9,566	9,776	9,901	10,131	10,934	*3.4%*
	y-o-y growth	*3.2%*	*2.2%*	*1.3%*	*2.3%*	*7.9%*	
Social Services Sector		13,998	14,716	15,595	16,073	16,844	*4.7%*
	y-o-y growth	*2.1%*	*5.1%*	*6.0%*	*3.1%*	*4.8%*	
Justice Sector		4,165	4,349	4,547	4,617	4,714	*3.1%*
	y-o-y growth	*5.0%*	*4.4%*	*4.5%*	*1.5%*	*2.1%*	
Other Programs Sector Consolidated		17,495	16,865	17,120	16,646	19,252	*2.4%*
	y-o-y growth	*-2.1%*	*-3.6%*	*1.5%*	*-2.8%*	*15.7%*	
Total Program Expense		**122,253**	**125,245**	**128,074**	**130,016**	**137,388**	*3.0%*
	y-o-y growth	*3.0%*	*2.4%*	*2.3%*	*1.5%*	*5.7%*	
Interest on Debt		**11,155**	**11,221**	**11,589**	**11,709**	**12,246**	*2.4%*
	y-o-y growth	*2.5%*	*0.6%*	*3.3%*	*1.0%*	*4.6%*	
Total Expense		**133,408**	**136,467**	**139,663**	**141,725**	**149,634**	*2.9%*
	y-o-y growth	*3.0%*	*2.3%*	*2.3%*	*1.5%*	*5.6%*	
Surplus/(Deficit) before Reserve		**(10,453)**	**(10,315)**	**(3,515)**	**(991)**	**500**	
Reserve		**-**	**-**	**-**	**-**	**500**	
Surplus/(Deficit)		**(10,453)**	**(10,315)**	**(3,515)**	**(991)**	**0**	
Nominal GDP growth							*4.7%*
Inflation + Population Growth							*2.9%*

Potential Signature Initiatives

- As the government develops the annual Document, it identifies new signature initiatives to be highlighted as part of the Document narrative.
  - These initiatives may also include recent policy approvals or items identified through the PRRT process.
- There are currently 70 potential signature initiatives being tracked for consideration. Examples of potential investments include:
  - Childcare
  - K-12 Education
  - Income Security Reform
  - New Economy Skills & Jobs Plan
  - Mental Health & Addictions Strategy
  - Corrections Reform
  - Development Services
  - Other health sector investments
- A number of potential initiatives with significant fiscal impacts have not yet been costed (e.g., pharmacare)
- If approved as proposed, the signature initiatives with cost estimates result in a $10.2 billion investment over three years.

Potential Fiscal Impacts

Signature initiatives with cost estimates (n=53 of 70)



Highest Likelihood Expense Risks

$M	2018-19	2019-20	2020-21
Education Sector			
EDU: GSN Risk (Enrolment - Preliminary Estimated Mid-Point)	50.4	106.8	136.7
EDU: GSN Risk (New Policy Items)	32.4	66.3	96.5
Postsecondary and Training Sector			
MAESD: OSAP Pressures (20% of 2018-19 PRRT Request)	62.0	78.0	93.0
Childrens' and Social Services Sector			
MCYS: Child Welfare (age of protection, indigenous CASs, balanced budget fund)	64.6	39.4	31.1
MCYS: Autism	62.0	35.0	10.0
MCYS: Child and Parent Resource Institute (CPRI) Infrastructure	-	1.0	2.0
MCSS: Special Diet Allowance	24.6	24.6	24.6
MCSS: Social Assistance Forecast	95.8	178.8	203.8
Justice Sector			
MCSCS: Grants Restructuring - Reversal of Savings Target	-	30.0	30.0
MCSCS: Class Action Resource Team	11.4	11.4	8.4
MCSCS: WSIB - Post-Traumatic Stress Disorder Eligibility	13.0	18.0	18.0
MCSCS: Chief Coroner / Forensic Pathology Caseload Increase	7.6	7.6	7.9
MCSCS: Cybercrime Investigations	8.6	16.2	14.3

$M	2018-19	2019-20	2020-21
Other Programs			
OMAFRA: Business Risk Management	60.0	60.0	60.0
MEDG: Toyota		20.0	20.0
ENERGY: Distribution Rate Protection Program and Affordability Fund	126.8	47.6	53.2
MOECC: Drive Clean	28.8	38.5	38.5
MIRR: Land/Flood Claims - Settlements (Rainy Lake, Lake of Woods, Wikwemkoong; does not incl. Williams)	257.2	85.3	-
MIRR: Land/Flood Claims - Capacity (Six Nations CLOC and Historical Research)	4.2	4.3	3.5
MIRR: Indigenous Youth and Community Wellness Secretariat - TP Funding	0.5	-	-
MIRR: Mercury Disability Fund	0.4	TBD	TBD
MNRF: Emergency Fire Fighting	65.0	65.0	65.0
MNRF/MNDM: Resource Revenue Sharing	25.1	36.7	52.7
MTO: Drive Test Centres	13.7	6.3	7.1
Boulder Savings risk	60.0	120.0	210.0
TOTAL	**1,074.1**	**1,096.7**	**1,186.2**

Note: MOHLTC risks (to be managed within allocation) and Compensation risks are not included in this list.

Comparison of Deficit Levels: Now vs. This time last year

Fiscal Gap

(as presented January 2017 MMMP)

2018-19

0.0

H1 & OPG Acct'g 0.5B

$9.1 billion Fiscal Gap

Ministry Submitted Plans 0.8B

Scalable Priority Initiatives 2.3B

Net C&T Expense Increase 0.1B

Potential Additional Electricity Relief 2.0B

$11.9 billion in pressures

Current Fiscal Gap

2018-19

0.0

$4.2 billion Fiscal Gap

Additional $1.9B Document Initiatives Under Consideration

$6.1B gap excluding risks

Excluding the pensions adjustment, the fiscal gap in Jan 2017 was $5.4B

What's different this year?

While alternative/more aggressive revenue assumptions could improve the fiscal outlook, levers that were available last year may not be available:

- *PIT tax planning impact now materialized on a multi-year basis*
- *Lower equalization entitlement now confirmed*
- *Need to include the impact of IFRS*
- *Starting point for contingency funds is lower*
- *High savings targets*
- *Low reserve*
- *Significant risks identified*
- *Limited/No additional IOD savings*
- *Additional 17-18 in-year investments plus new signature initiatives will add to pressures*

Third Quarter Finances

The **Third Quarter Finances** is an opportunity to provide a public update on 2017-18 as well as **reiterate key fiscal messages** from the Budget/FES or pre-condition for future updates.

Under *FTAA*, the Q3 Finances is to be **released by Feb 15th and include updated information on the current fiscal year only (2017-18)**.

A Third Quarter Finances has been published twice in the last nine years (in 2012-13 and 2016-17).

- **In both 2012-13 and 2016-17 the deficit published in the 3rd Quarter Finances showed an improvement over the FES** forecast (in 2016-17 this was due to the government's return to historical accounting treatment of pension assets).

It is proposed that a Q3 finances be published that projects balance for 2017-18.

- Revenue would be unchanged from the FES.
- Total expense would be unchanged from the FES, however select items would be reported as offset from the c-fund or managed from within.

Key stakeholders like the Financial Accountability Officer and investors/rating agencies will assess the fiscal outlook and narrative.

Significant Declines in Some Non-Tax Revenue Sources

	$ Billions			
	2017-18	**2018-19**	**2019-20**	**2020-21**
Equalization (Government of Canada)	1.4	1.0	0.7	0.7
Debt Retirement Charge (Other NTR)	0.6	0.0	0.0	0.0
Asset Optimization (Other NTR)*	1.5	0.1	0.0	0.0
Sub Total	**3.5**	**1.0**	**0.7**	**0.7**
Change from 2017-18		*-2.5*	*-2.8*	*-2.8*
Fiscally Neutral				
Infrastructure (Government of Canada)	1.6	1.5	0.7	0.5
Carbon Allowance Proceeds (Other NTR)	2.3	1.6	1.5	1.3
Sub Total	**3.9**	**3.1**	**2.2**	**1.8**
Change from 2017-18		*-0.8*	*-1.7*	*-2.1*
Total	**7.5**	**4.1**	**3.0**	**2.5**
Change from 2017-18		*-3.3*	*-4.5*	*-4.9*

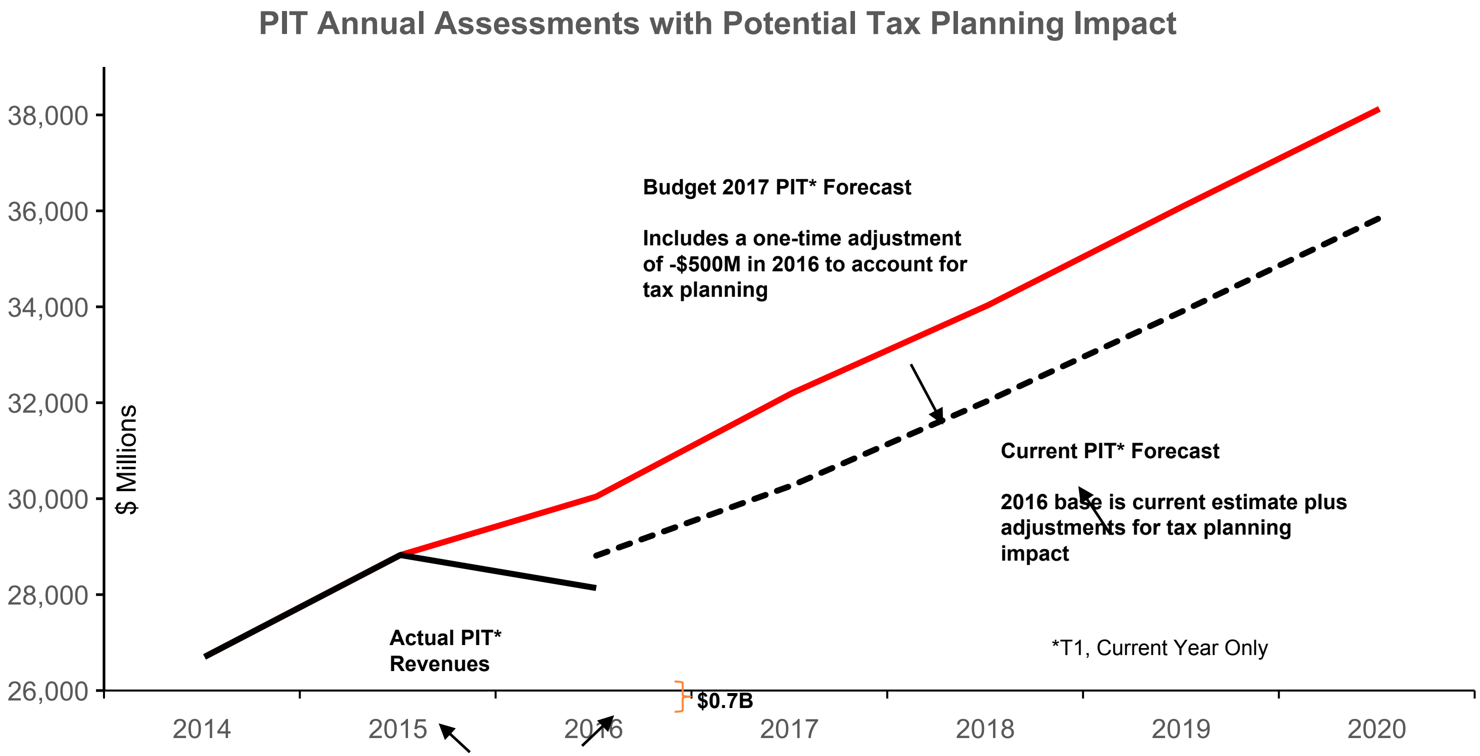
* Asset disposition in 2017-18 includes revenues of $1.1B (Other Non-Tax Revenues / Sales & Rentals), one-time increase of $0.3B (Government Business Enterprise Net Income /OPG Net Income) and $0.1B (Taxation Revenues /Electricity Payment in Lieu of Tax) from the sale of OPG's head office properties. Excludes expense savings previously included in revenues (Other Non-Tax Revenues / Sales & Rentals) now reclassified to expense. Revenue in 2018-19 reflects (Other Non-Tax Revenues / Sales & Rentals) from Seaton Lands.

Treatment of High Yield Revenue Assumptions

	2017 Budget			Current (items that have been determined)			Change		
$ Billions	**2017-18**	**2018-19**	**2019-20**	**2017-18**	**2018-19**	**2019-20**	**2017-18**	**2018-19**	**2019-20**
Asset Optimization – additional $1/share	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Revenue Integrity Target	0.1	0.2	0.4	0.1	0.2	0.3	0.0	0.0	-0.1
Equalization	0.0	0.7	0.0	0.0	0.3	0.0	0.0	-0.5	0.0
Remove nGDP Prudence	0.1	0.2	0.3	0.0	0.0	0.0	-0.1	-0.2	-0.3
HST-Economy	0.4	0.5	0.5	0.4	0.5	0.5	0.0	0.0	0.0
IFRS Accounting Impact on OPG/H1	0.0	0.5	0.5	0.0	0.0	0.0	0.0	-0.5	-0.5
Housing (LTT and HST Housing Base)	0.7	1.0	1.1	0.3	0.3	0.3	-0.4	-0.7	-0.8
Corporations Tax	0.4	0.7	0.9	0.2	0.2	0.2	-0.2	-0.5	-0.7
Personal Income Tax	0.4	0.4	0.4	-0.4	-0.4	-0.4	-0.8	-0.8	-0.8
Total	**2.3**	**4.2**	**4.1**	**0.8**	**1.0**	**0.9**	**-1.5**	**-3.2**	**-3.1**

Note: numbers may not add to totals due to rounding.

PIT Annual Assessments



	Actual		Estimated	Forecast			
	2014	2015	2016	2017	2018	2019	2020
Ontario Taxes Assessed *(% growth) T1 Current Year Only*	8.7	8.0	-2.4	7.6	5.8	5.9	5.7

Revenue Comparison to FAO Outlook

	Interim MoF Outlook				FAO Outlook				Difference from FAO Outlook			
$ Billions	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Taxation Revenue	99.7	102.7	107.1	111.9	98.7	102.7	107.0	111.3	1.0	0.0	0.0	0.6
Government of Canada	25.4	25.8	25.7	26.3	26.2	25.5	25.0	25.8	-0.8	0.3	0.7	0.5
Income from GBEs	5.1	4.9	5.2	5.6	5.1	5.9	6.2	6.5	0.0	-1.0	-1.0	-1.0
Other Non-Tax Revenue	19.1	17.2	17.4	17.7	19.4	16.5	16.6	17.3	-0.3	0.7	0.7	0.4
Total Revenue	**149.3**	**150.7**	**155.3**	**161.4**	**149.4**	**150.7**	**154.8**	**160.9**	**-0.1**	**0.0**	**0.5**	**0.6**

Note: numbers may not add to totals due to rounding.

Recap: Mar 24, 2017 MMMP

Revenue Outlook Summary

$ Billions	2017-18	2018-19	2019-20	Average Annual Growth 2016-17 to 2019-20
Taxation Revenue	100.2	105.5	110.3	4.9%
Federal Transfers	25.7	25.4	24.9	0.7%
GBEs Net Income	5.0	6.0	6.6	7.9%
Other NTR	10.5	8.2	8.0	(2.1%)
Total Revenue	**141.3**	**145.2**	**149.8**	**3.9%**

$ Billions	2017-18	2018-19	2019-20
Change from 2016 Budget			
Taxation Revenues	4.3	5.3	6.2*
Total Revenues	3.6	3.3	5.1*
Current Revenue Assumptions			
High-Yield Revenue Assumptions			
Previous	1.3	1.8	2.2
New	1.0	2.4	1.9
Total High-Yield Revenue Assumptions	**2.3**	**4.2**	**4.1**
Tax Measures	**0.4**	**0.7**	**1.0**
Total Current Revenue Assumptions	**2.7**	**4.9**	**5.1**

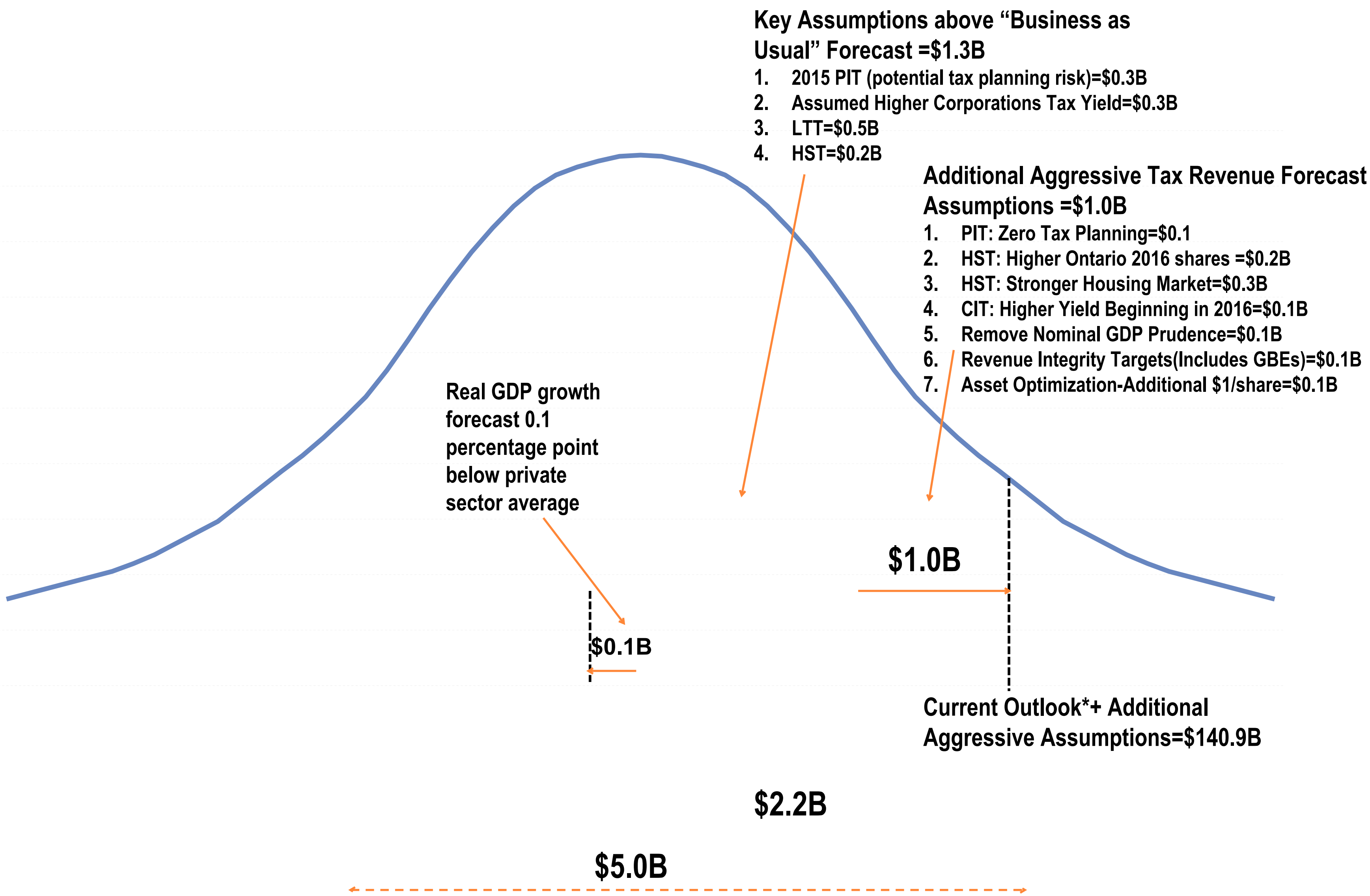
*2019-20 was not published in the *2016 Budget*

Key Average Growth Rates (2016-17 to 2019-20)

	Growth Rate	Ratio
Nominal GDP	4.2	1.18
Tax Revenues	4.9	
Total Revenues	3.9	

This ratio has historically been 0.9 (see slide 26)

Recap: Mar 24, 2017 MMMP - 2017-18 Revenue Outlook Risks



*Excludes the revenues from "Targeted Tax Changes"

Recap: FES Revenue Strategy

Potential Fall Economic Statement Revenue Scenario (Oct. 17)

$ Billions	Updated Revenue Outlook			Potential 2017 FES Revenue			Difference		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
Total Restated 2017 Budget Revenue	**150.0**	**153.5**	**158.2**	**150.0**	**153.5**	**158.2**			
Changes since 2017 Budget									
2016-17 Public Accounts									
Personal Income Tax (incl. Ontario Health Premium)	(2.3)	(2.4)	(2.4)	(2.3)	(2.4)	(2.4)	-	-	-
Corporate Income Tax	1.6	1.7	1.8	1.6	1.7	1.8	-	-	-
Government Business Enterprise Net Income and Other	0.2	0.2	0.2	0.2	0.2	0.2	-	-	-
Sub-Total	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.4)**	**(0.4)**	**-**	**-**	**-**
Revised Economic Growth Outlook									
Stronger GDP Growth	1.0	1.0	1.0	1.0	1.0	1.0	-	-	-
GDP Prudence Achieved	(0.1)	(0.2)	(0.3)	(0.1)	(0.2)	(0.3)	-	-	-
Sub-Total	**0.9**	**0.8**	**0.7**	**0.9**	**0.8**	**0.7**	**-**	**-**	**-**
Housing Market (LTT/NRST)	(0.4)	(0.7)	(0.7)	(0.3)	(0.4)	(0.3)	(0.1)	(0.3)	(0.4)
Post Public Accounts Revenue Information (e.g. PIT)	(0.7)	(0.3)	(0.3)	(0.1)	0.0	0.0	(0.6)	(0.3)	(0.3)
Total Change since 2017 Budget (excl. Fiscally Neutral Items)	***(0.6)***	***(0.7)***	***(0.7)***	***0.0***	***0.0***	***0.0***	***(0.6)***	***(0.7)***	***(0.7)***
Fiscally Neutral Item: • *Early Learning and Childcare Multilateral Framework*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	-	-	-
Carbon Allowance Proceeds (Expense Offset)	0.4	-	-	0.0	-	-	0.4	-	-
Total Change since 2017 Budget*	***(0.1)***	***(0.5)***	***(0.6)***	***0.1***	***0.1***	***0.1***	***(0.2)***	***(0.7)***	***(0.7)***
Total 2017 FES Revenue	**149.9**	**153.0**	**157.6**	**150.2**	**153.7**	**158.4**			

Recap: Pre-FES Oct 24 MMMP Revenue Pressures

Key Revenue Risks (Oct. 17)

$ Billions	2017-18	2018-19	2019-20	2020-21
Total 2017 FES Revenue	**150.2**	**153.7**	**158.4**	
Change from 2017 Budget Carried As Risks				
Housing Market (LTT/NRST)	(0.1)	(0.3)	(0.4)	
Post Public Accounts Revenue Information	(0.6)	(0.3)	(0.3)	
Carbon Allowance Proceeds	0.4	0.0	0.0	
Total Change from 2017 Budget Carried As Risks	**(0.2)**	**(0.7)**	**(0.7)**	
Remaining 2017 Budget High-Yield Revenue Assumptions				
Equalization (Revised)	-	(0.4)	(0.1)	
IFRS Accounting Impact	-	(0.5)	(0.5)	
Harmonized Sales Tax	(0.7)	(0.8)	(0.7)	
Corporate Income Tax	(0.4)	(0.7)	(0.9)	
Revenue Integrity Target	(0.1)	(0.2)	(0.4)	
Total Remaining 2017 Budget High-Yield Revenue Assumptions	**(1.2)**	**(2.6)**	**(2.5)**	
Other Updates				
2015 CIT	0.3	TBD	TBD	
2016 Tax Assessments	(0.2)	(0.1)	(0.1)	
Composition of Economic Growth	0.5	(0.0)	(0.2)	
Infrastructure and Other	(0.2)	0.0	0.0	
Government Business Enterprise Net Income	0.1	0.0	0.0	
Total Other Updates	**0.6**	**(0.1)**	**(0.3)**	
Total Key Risks and Updates	**(0.8)**	**(3.4)**	**(3.6)**	
Total 2017 FES Revenue (incl. Key Risks and Updates)	**149.3**	**150.3**	**154.8**	**160.2**

Recap: Dec 13 FPC Updated Revenue Pressures

Key Revenue Risks (Dec. 13)

$ Billions	2017-18	2018-19	2019-20	2020-21
Total Potential 2017 FES Revenue (as of October 17)	**150.2**	**153.7**	**158.4**	
Change from 2017 Budget Carried As Risks				
Housing Market (LTT/NRST)	(0.1)	(0.3)	(0.4)	
Post Public Accounts Revenue Information	(0.6)	(0.3)	(0.3)	
Carbon Allowance Proceeds	0.4	0.0	0.0	
Total Change from 2017 Budget Carried As Risks	**(0.2)**	**(0.7)**	**(0.7)**	
Remaining 2017 Budget High-Yield Revenue Assumptions				
Equalization (Revised)	-	(0.5)	-	*Updated Since Oct. 17*
IFRS Accounting Impact	-	(0.5)	(0.5)	
Harmonized Sales Tax	(0.3)	(0.4)	(0.4)	
Corporate Income Tax	(0.4)	(0.7)	(0.9)	
Revenue Integrity Target	-	-	-	
Total Remaining 2017 Budget High-Yield Revenue Assumptions	**(0.7)**	**(2.1)**	**(1.8)**	
Other Updates				
2015 Prior Year CIT	0.2	TBD	TBD	
2016 Tax Assessments	(0.4)	(0.4)	(0.4)	
Composition of Economic Growth	0.5	-	-	
Infrastructure and Other	(0.2)	-	-	
Government Business Enterprise Net Income	0.1	(0.2)	(0.2)	
CHT and CST Update	-	0.1	0.1	
Corporate Income Tax	-	(0.1)	(0.1)	
FES Small Business CIT Cut*	-	(0.1)	(0.2)	
Total Other Updates	**0.2**	**(0.7)**	**(0.8)**	
Total Key Risks and Updates	**(0.7)**	**(3.5)**	**(3.3)**	
Total Current Revenue (incl. Key Risks and Updates)	**149.5**	**150.2**	**155.1**	**160.5**