2017 Document:
Fiscal Plan Strategy Update

Office of the Budget
MINISTRY of FINANCE

TBS

OFFICE OF ECONOMIC POLICY
OEP
MINISTRY OF FINANCE

MMP, February 2016

Preliminary Draft (All numbers to be confirmed) – February 8, 2017 8:00 PM

Purpose

- To outline the frame, priorities, and approach to the 2017 Document.
  - Determine the fiscal anchors that will set the foundation and framework.
- Set the stage to determine the intersection point between key investments and the government's fiscal objectives, and the potential tools that could support this intersection point.
- Discuss next steps and key choices to be made as part of the planning process.

2017 Document – Framing and Anchoring

Framing the Balance of Choices for the 2017 Document

Build on Government's Plan, Demonstrate Progress, and Provide a Vision for Tomorrow

- Show progress on the government's plan to **invest in the economy and build Ontario up for everyone**.
- Demonstrate **responsible fiscal management**.
- Continue to **transform** and protect public services for longer term sustainability.

Confirm Recent Investments, Launch New Supporting Priority Investments

- Point to **2016 Budget investments**, as well as important **additional commitments** made in the 2016-17 year that demonstrate progress.
- Launch **select new priority investments** that create jobs and grow the economy of tomorrow.

Maintain Fiscal Credibility

- Continue to beat **deficit targets** and return the Province to **balanced budgets**.
- Moving forward, ensuring a **fiscally sustainable** and credible plan.

Reconciling and Balancing the Approach

- **Reconciling the government's fiscal anchors**, such as balancing the budget in 2017-18 and ongoing, **with the commitment to invest in priorities,** such as **additional electricity relief,** will require **trade-offs**.
- This means the scope, size and roll-out of new priority investments **may require the consideration of all viable revenue tools and other measures** in the lead-up to the 2017 Document.
- Need to maintain a longer-term view to the **2018 Document, Pre-Election Report** and beyond.

2017 Document: Determining Fiscal Anchors

- The 2014, 2015 and 2016 Budgets consistently laid out plans that balanced the government's plan to invest in the Ontario economy and public services, while also balancing the budget.

- As a continuation and culmination of these plans, the 2017 Document will need to be able to demonstrate progress on the government's plan to invest in today's jobs and tomorrow's economy, build and strengthen Ontario's communities, and make Ontario an affordable place to live, while delivering on the **commitment to balance the budget in 2017-18**.

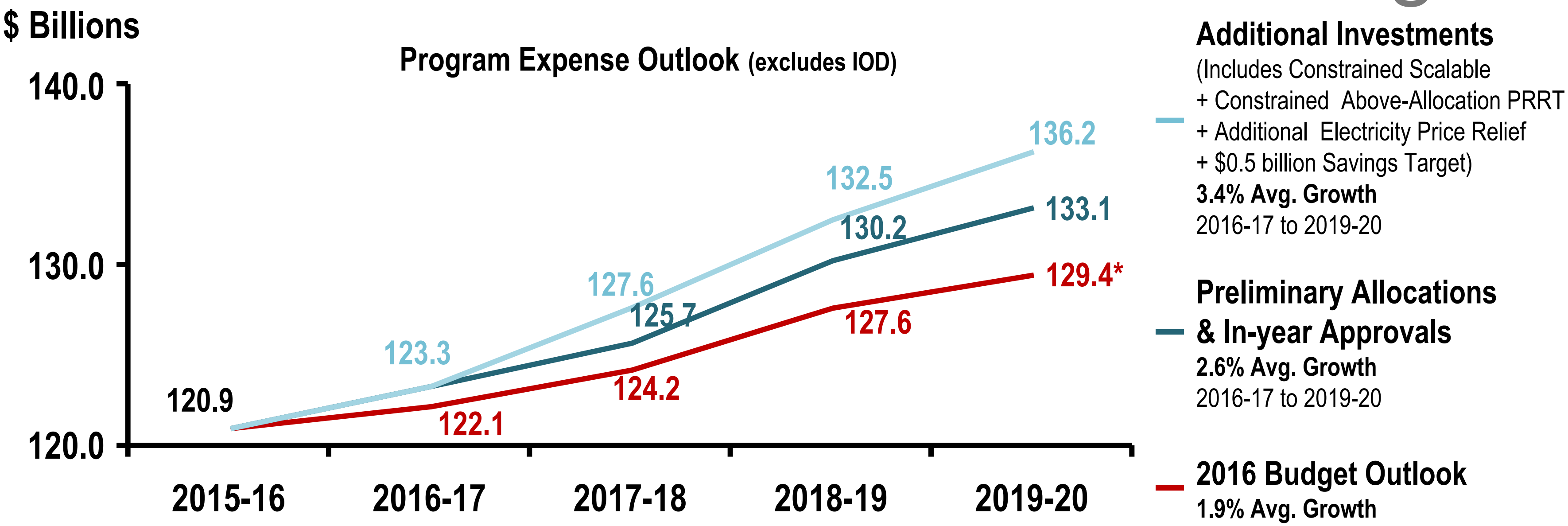
- As part of the planning for the 2017 Document, the government must confirm its **fiscal objectives and anchors – for the upcoming year (2017-18), as well as the two subsequent years –** in order to provide the right overall financial framing and envelope that will support new investments.

	2016 Budget Targets		Decision Required for 2017 Document	
Potential Fiscal Anchors	**2017-18**	**2018-19**	**2019-20**	Net debt-to-GDP target: Flat-lined or continued progress towards 27%
	Balance	Balance	Balance	

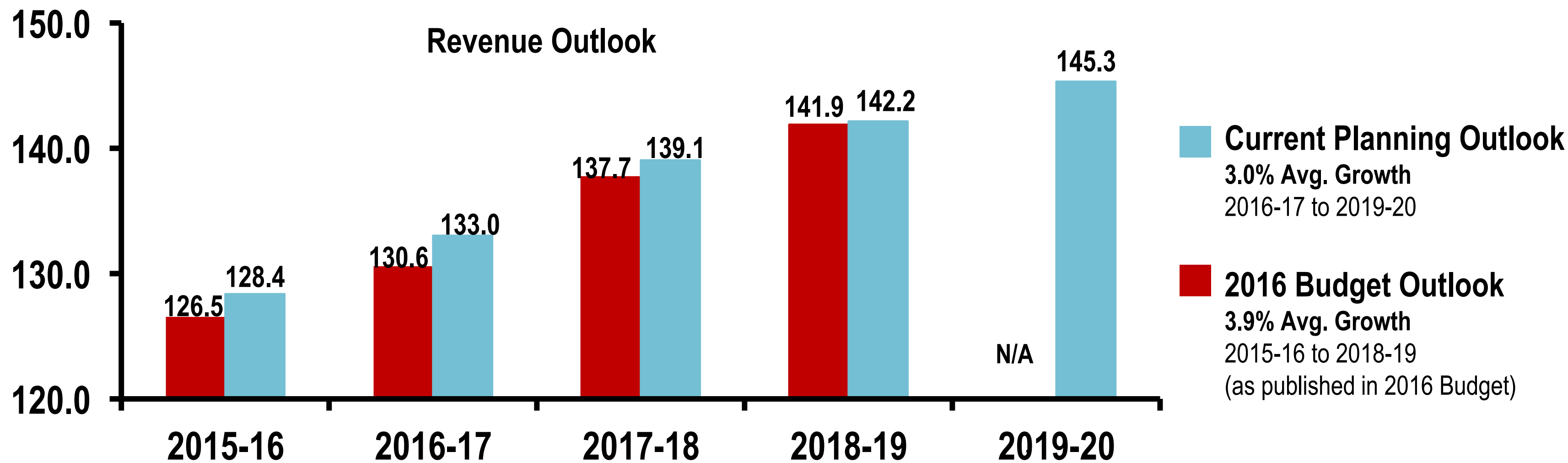
- With fiscal anchors and overarching objectives in place, the government will be in a position to **determine the fiscal envelope available for new investments**.
  - The fiscal envelope can also be **augmented through additional tools and levers**, as well as trade-offs between investments (including delaying some investments for the 2018 Document).
  - Revenue and expense information **will continue to come** in as part of the lead-up to the 2017 Document that could impact the fiscal envelope (e.g. Federal Budget).

Evolution of the Fiscal Plan Since 2016 Budget

Evolution of Fiscal Plan Since 2016 Budget



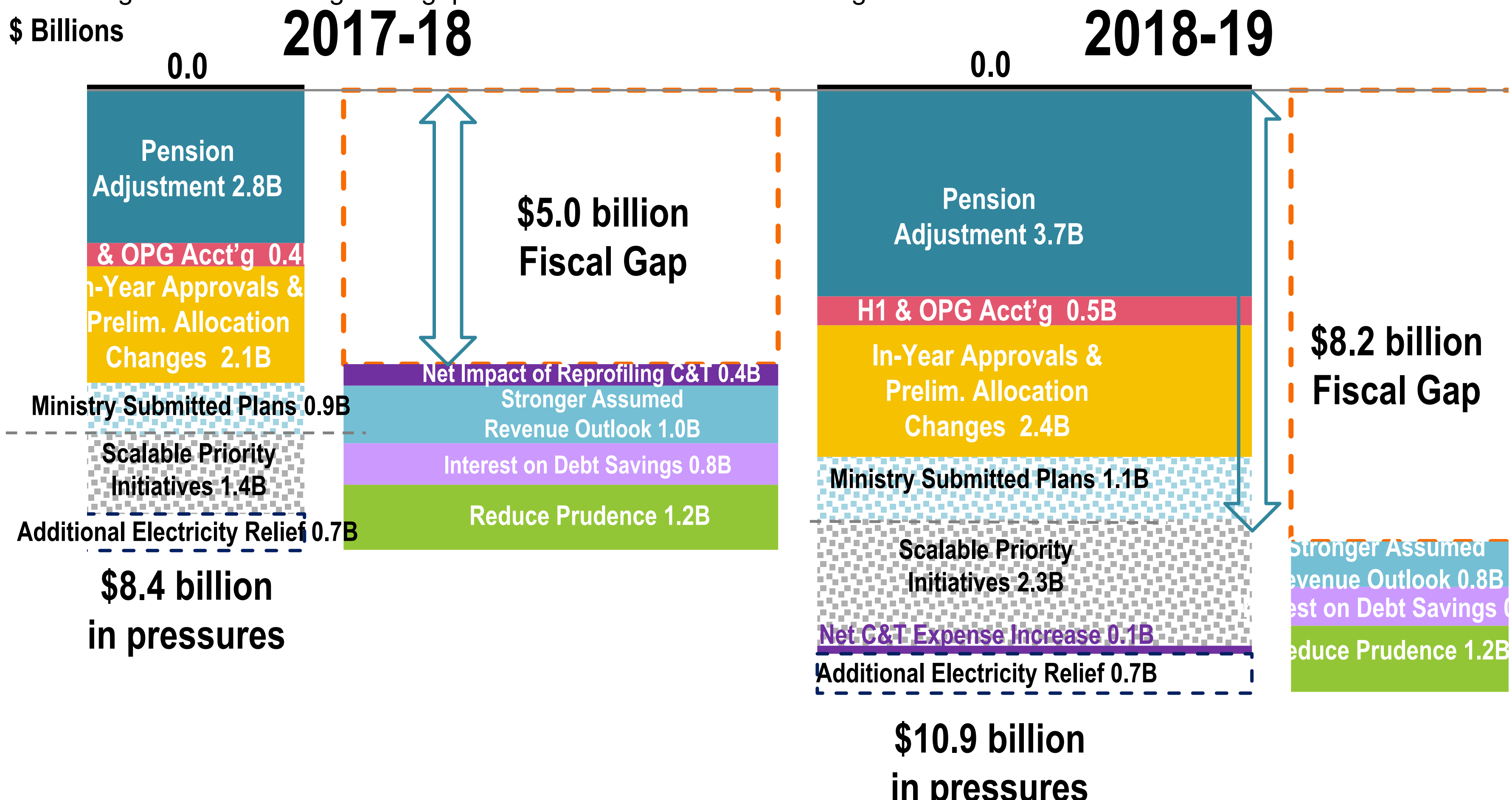
Current IOD	11.0	11.3	11.7	12.4	12.6
Reserve	--	0.4	0.7	0.8	1.0



The Fiscal Challenge

While the 2016 Budget outlined a plan to balance the budget in 2017-18 and remain balanced in 2018-19, **changes since the Budget have created a gap compared to the government's fiscal targets.**

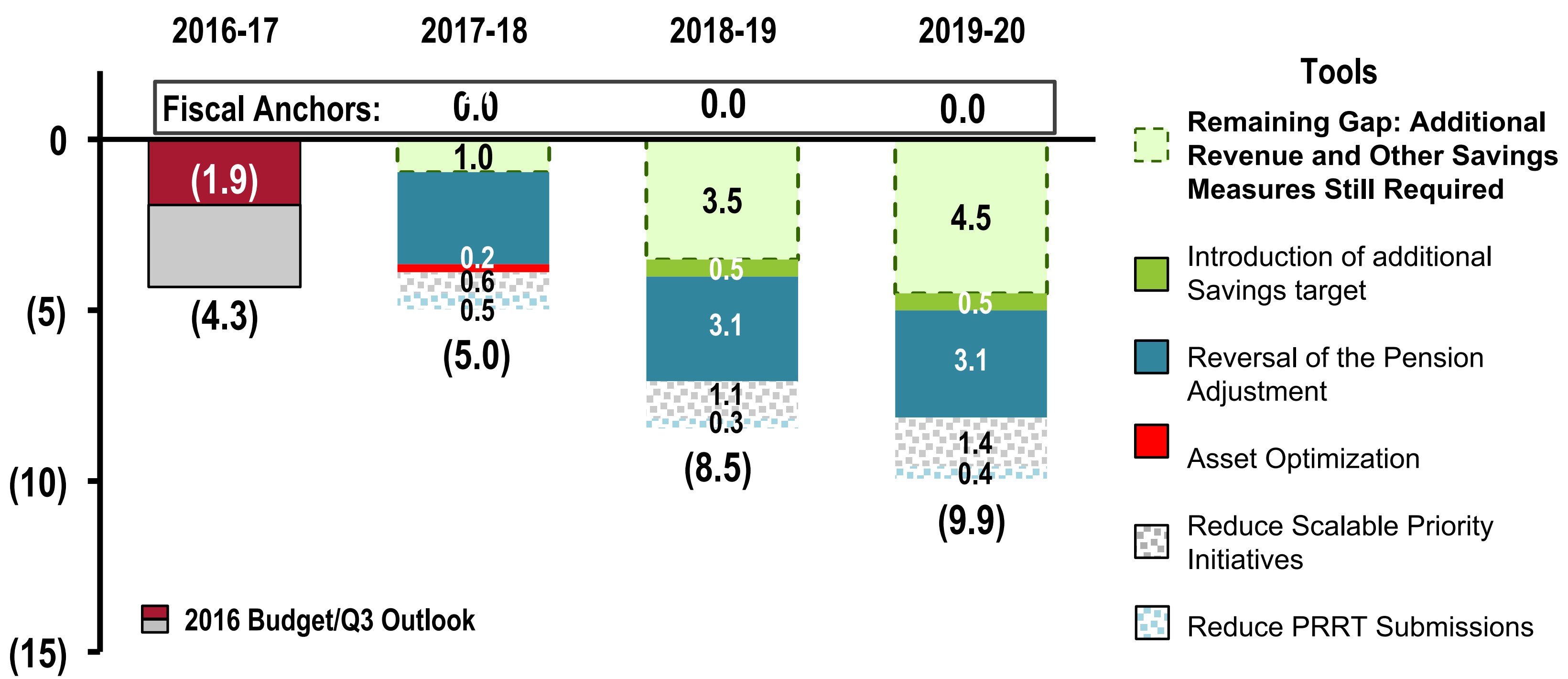
- A stronger outlook for revenue and lower interest on debt expense are currently tracking against the Budget forecast – **however, spending pressures, new strategic investments, and the pension adjustment also materialized** – creating a fiscal gap.
- In order to accommodate fiscal pressures in 2017-18 and 2018-19, tools were taken on in the 2016 FES and the 2016 Budget. The remaining fiscal gap will need to be addressed through additional tools.



Assessing the Fiscal Challenge – Closing the Gap

Some measures have already been identified to help close the gap – including reversal of the pension adjustment, scaling back PRRT requests and scalable initiatives, and higher savings targets.

However, **continuing to assume fiscal anchors of balanced budgets** over the forecast horizon **means a limited envelope for new investments, and the need to identify additional tools and levers.**



Note: Due to the asset optimization tool assumed in 2017-18, the 2018-19 gap increases from $8.2 billion to $8.5 billion

Key Decisions

A number of framing and anchoring decisions are required in order to firm up the overall approach to the 2017 Document.

- What fiscal anchors does the government want to set for 2017-18 to 2019-20?
- What balance of revenue and expense measures to set in order to meet fiscal anchors?

Appendix

Electricity Rate Mitigation Options

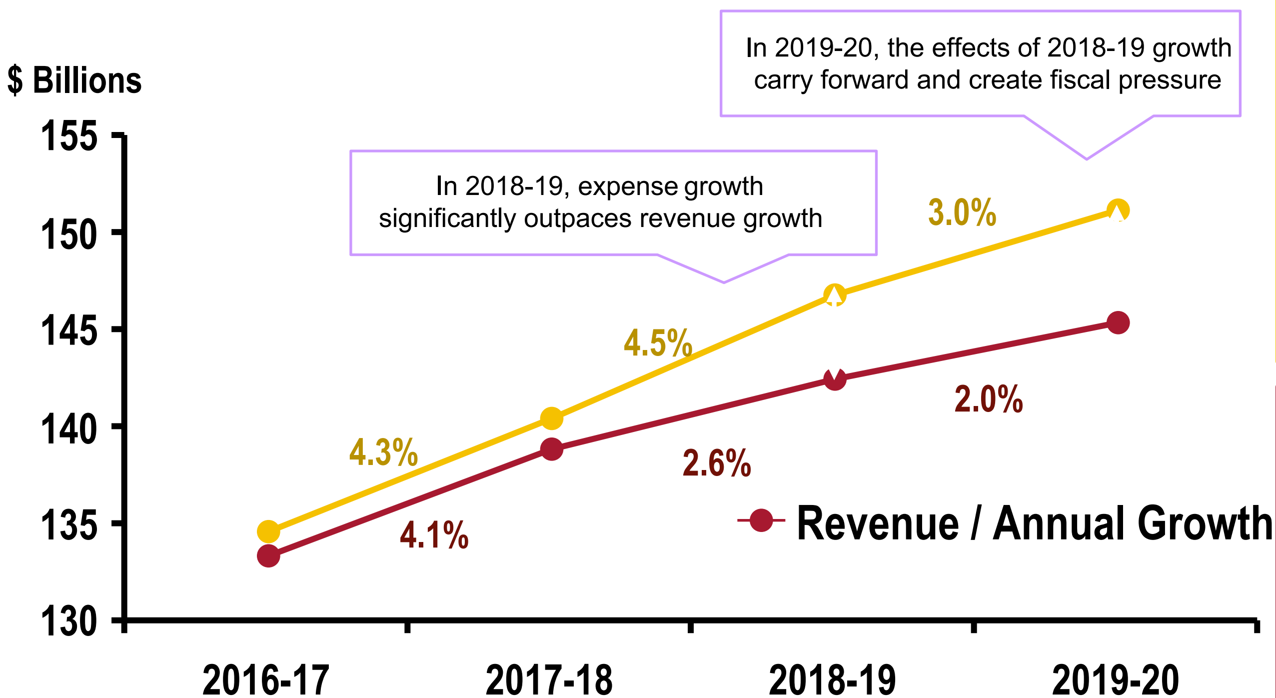
Electricity Rate Mitigation Plan Options -- Estimated Impact of Initiatives with Fiscal Impacts

	In-Year	Document Planning Outlook			Extended Outlook		
$ Millions	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Greater Focus on Electricity Support Programs to Help the Most Vulnerable							
Accelerating Fixed Rate Benefit -- Total RRRP Enhancement	-	332	320	309	297	289	275
Accelerating Fixed Rate Benefit -- High Dist'n Cost LDC's	-	10	10	10	10	10	10
Accelerating Fixed Rate Benefit -- Normalizing Fixed Rates	-	140	140	140	140	140	140
Total Accelerating Fixed Rate Benefit	**-**	**482**	**470**	**459**	**447**	**439**	**425**
Expanding Ontario Electricity Support Program	-	162	225	279	323	365	408
Establishing a New LDC Affordability Fund	200	-	-	-	-	-	-
Option for more Appropriate First Nations Rate	-	20	20	20	20	20	20
Total Fiscal Impact -- Electricity Support Programs Initiative	**200**	**664**	**715**	**758**	**790**	**824**	**853**

2019-20 Risk-Based Outlook

Over the outlook and in the absence of any tools, **total expense growth outpaces revenue growth**.

Substantial growth in expense in 2017-18 and 2018-19 results in higher levels of program expense, which **carry forward into 2019-20**.



2019-20 Expense Consists of:

- Includes Pension Adjustment of $0.8 billion for HOOPP and CAATPP
- In-year approvals of $2.7 billion
- Additional Electricity Cost Relief of $0.8 billion
- Full requests PRRT Submissions and Scalable Priority Initiatives of $4.6 billion
- Lower proceeds of $0.5 billion and the reversal of $0.6 billion in-plan expense results in an increase of $0.1 billion to expense for new climate change initiatives
- Increase to municipal share of Gas Tax of $0.1 billion

2019-20 Revenue Growth Slowed by:

- Reduced federal funding
- Lower net income and PiLs due to the net impact of the asset plan
- Projected taxation revenue growth of $3.9 billion in 2019-20, consistent with current private sector forecasts for Ontario economic growth.

Note: Scenario assumes the reversal of the pension adjustment for both OTPP and OPSEUPP (in all years).

Economic Outlook

Percent Change	2015		2016		2017		2018		2019	
	2016 Budget	Current	2016 Budget	Current	2016 Budget	Current	2016 Budget	Current	2016 Budget	Current
Real GDP	2.5	2.5	2.2	2.6	2.4	2.2	2.2	2.1	2.0	2.0
Nominal GDP ($billions)	748.2	763.3	778.4	797.4	813.9	830.1	848.2	863.9	882.1	899.5
(percent change)	3.6	4.9	4.0	4.5	4.6	4.1	4.2	4.1	4.0	4.1
Compensation of Employees	3.3	4.2	4.4	4.1	4.5	4.0	4.5	4.5	4.4	4.6
Corporate Net Operating Surplus	2.1	9.1	3.7	8.5	8.5	6.2	5.7	7.1	3.9	5.3
Nominal Household Consumption	4.1	3.9	4.4	4.2	4.1	4.1	3.5	4.2	3.6	4.0
Home Resales	9.6	9.6	(2.9)	8.7	(5.8)	(4.3)	2.0	0.7	3.8	3.0
Home Resale Prices	7.8	7.8	3.1	14.4	0.6	5.2	2.9	1.0	1.8	1.3

Note: Current projection is a draft and is subject to change in coming weeks as new information is released and pre-Budget private-sector consultations are conducted.

Revenue Outlook Variances

$ Billions	2016 Budget					Change Since 2016 Budget				Current Outlook*					
	2015-16	2016-17	2017-18	2018-19	Avg. Growth	2015-16	2016-17	2017-18	2018-19	2015-16	2016-17	2017-18	2018-19	2019-20	Avg. Growth
Total Taxation Revenues	90.8	91.8	95.9	100.2	*3.4%*	1.1	3.0	2.3	2.9	91.8	94.8	98.3	103.1	107.1	*3.9%*
Gov't of Canada Transfers	22.9	24.6	25.8	26.6	*5.1%*	0.0	-0.2	-0.7	-1.3	22.9	24.5	25.1	25.3	24.6	*1.8%*
Gov't Business Enterprises	4.3	5.0	5.3	5.7	*9.5%*	0.6	0.2	-0.2	-0.3	4.9	5.2	5.1	5.4	5.7	*3.7%*
Other Non-Tax Revenue	8.6	9.1	10.6	9.4	*3.3%*	0.2	-0.5	-0.1	-1.0	8.8	8.6	10.5	8.4	8.0	*-2.2%*
Total Revenues	**126.5**	**130.6**	**137.7**	**141.9**	***3.9%***	**1.8**	**2.5**	**1.3**	**0.2**	**128.4**	**133.1**	**139.1**	**142.2**	**145.3**	***3.5***

Note: average growth rates are calculated from 2015-16

Key Features of the Revenue Outlook

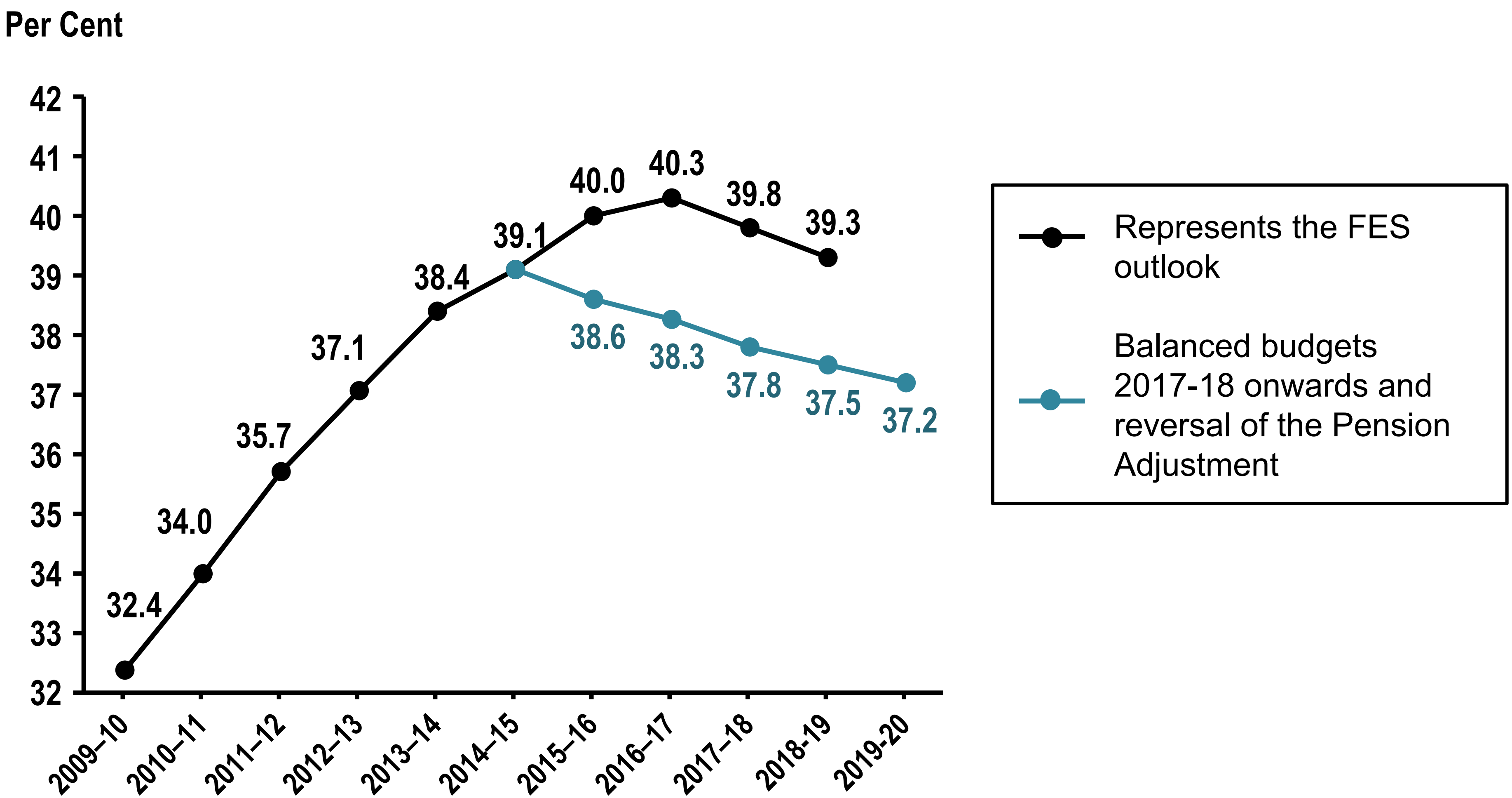
	2016 Budget 2015-16	2016-17	2017-18	2018-19	Change 2015-16	2016-17	2017-18	2018-19	Current 2015-16	2016-17	2017-18	2018-19	2019-20
2015 PIT (potential tax planning risk)	–	–	–	–		0.7	0.7	0.7		0.7	0.7	0.7	0.7
Stronger 2015 HST	–	–	–	–		0.8	0.5	0.5		0.8	0.5	0.5	0.5
Assumed Higher Corporations Tax Yield	–	–	–	–	–	0.3	0.5	0.7	–	0.3	0.5	0.7	0.7
Unconditional Federal Transfers													
- Infrastructure, Homecare, Training	–	0.7	1.3	1.3	–	-0.7	-0.5	-0.5	–	0.1	0.8	1.3	0.0
IFRS for HOL and OPG	–	–	–	–	–	-0.1	-0.4	-0.5	–	-0.1	-0.4	-0.5	-0.7
Equalization Forecast	2.4	2.3	2.3	2.2	0.0	0.0	-0.9	-1.5	2.4	2.3	1.4	0.7	0.7
Debt Retirement Charge ends 2018-19	0.9	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.9	0.6	0.6	0.0	0.0
Cap and Trade Proceeds Assumptions	0.0	0.5	1.9	1.8	0.0	-0.5	-0.1	-0.5	0.0	0.0	1.8	1.4	1.4
Asset Optimization (Net Impact)	0.9	1.1	1.1	0.6	0.0	-0.1	-0.1	-0.7	0.9	1.0	1.0	-0.1	-0.4

* The Current Outlook above includes the impact of the IFRS reporting change and also assumes an acceleration of the Hydro One IPO from 2018-19 to 2017-18.

Information still to come:

- 2016Q4 economic results
- Document economic outlook update
- Ongoing provincially-administered tax receipts
- PRRT revenue updates for ministries, agencies and government business enterprises
- PRRT revenue decisions
- Document Initiative decisions

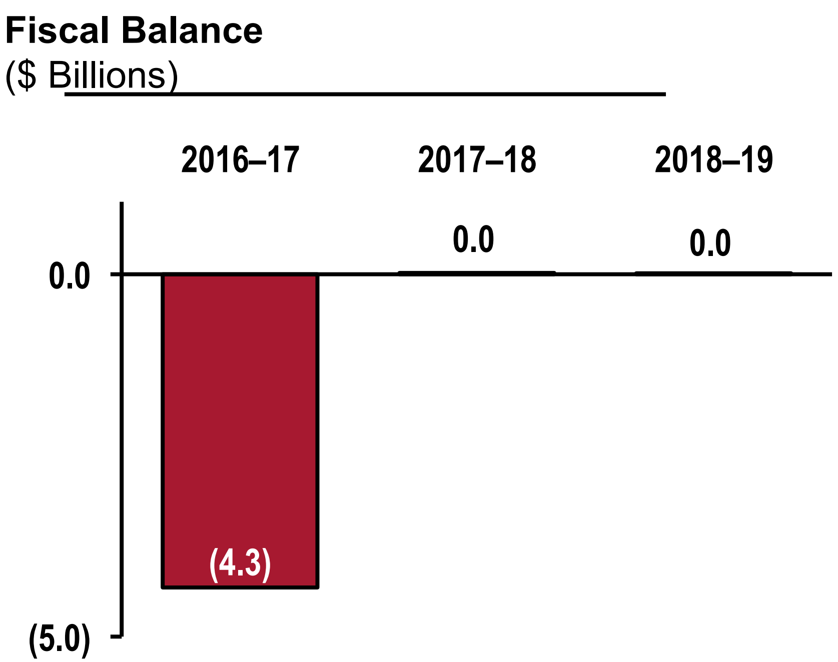
Net Debt-to-GDP With Balanced Budgets



2016 FES Recap

In the 2016 FES, the government continued to forecast deficits of $4.3 billion in 2016-17, a return to balance in 2017-18, and continued balance in 2018-19.

2016 FES Fiscal Targets



Revenue Plan (2016-17 to 2018-19)

- **$2.1 to $3.0 billion** per year increased revenue compared to the 2016 Budget, resulting from higher taxation revenues and a stronger housing market.

Expense Plan (2016-17 to 2018-19)

- **$3.1 billion to $4.1 billion** per year increase compared to the 2016 Budget, as a result of the Pension Adjustment, and to support strategic initiatives in new child care spaces, hospitals and electricity cost relief for consumers.
- **Contingency Funds** of $0.7 billion in 2016-17, growing to $2.9 billion in 2018-19.
- **Year-end Savings Targets** of $0.8 billion in 2016-17, growing to $1.2 billion in 2018-19.

Reserve of $0.4 billion in 2016–17, $0.7 billion in 2017–18, $0.8 billion in 2018–19