May 31, 2017

FAO's Spring 2017 Economic and Fiscal Outlook

On May 31, 2017, the FAO released its spring 2017 assessment of Ontario's medium-term economic and fiscal outlook. The FAO is projecting budget deficits in all years between 2016–17 and 2021–22. The report states that while balance is within reach in 2017–18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.

- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.

- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.

- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.

- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.

- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.

- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.

- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.

- This shows that our plan to make strategic investments in Ontario to grow the economy is working.

- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.

- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families.

- It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

ADDITIONAL MESSAGES

Program Review

- The government 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 laid out in the Budget. Ontario has the lowest program spending per capita of all provinces and territories.

Pensions

- To help inform the future accounting treatment of pension plans the government appointed the Pension Asset Expert Advisory Panel last November. This Panel included experts from the accounting, legal and actuarial professions.
- The panel recommended that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan be recognized as an asset in Ontario's financial statements, and is consistent with how accounting standards have been applied to these plans since 2001.
- This accounting treatment was used to inform the fiscal outlook presented in the 2017 Budget.

Debt

- A DBRS report on the 2017 Budget stated that "The Province will continue borrowing to fund its capital needs, but the debt burden as a share of the economy is projected to track lower over the medium term with economic growth outpacing debt growth."

KEY QUOTES FROM FAO REPORT

Economic Outlook

"The FAO's economic outlook expects the recent strength of the Ontario economy to continue into 2017 … The FAO's economic forecast is broadly in-line with that presented in the government's 2017 Budget." (p. 2)

"Domestically, Ontario's surging housing market continues to be the largest risk for the economy." (p.2)

"Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited." (p.10)

Fiscal Outlook

"Beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and moderate revenue growth. On this basis, staying in balance after 2017-18 will likely require additional fiscal policy measures." (p.2)

"The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24." (p.22)

"In the 2017 Budget, the government significantly reduced the prudence built into its program spending projection compared to the 2016 Budget, leaving less fiscal flexibility for the government to respond to unexpected events." (p.23)

Ontario's Debt Outlook

"Based on the FAO's application of the Auditor General's recommended accounting for these pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22 … Under the government's accounting presentation, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22." (p.15)

"Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, on-going deficits and maturing debt issues the FAO estimates that provincial borrowing will average $37 billion per year over the next five years." (p.21)

CURRENT STATUS

The Financial Accountability Officer (FAO) released a report on Wednesday, May 31, 2017, that assesses Ontario's medium-term economic and fiscal outlook. The FAO plans to release these medium-term outlook reports each spring and fall.

In compliance with the *Financial Accountability Officer Act, 2013*, the FAO provided a copy of the final report to the Ministers of Finance and Treasury Board prior to the release.

REPORT SUMMARY

The report is divided into two main chapters:

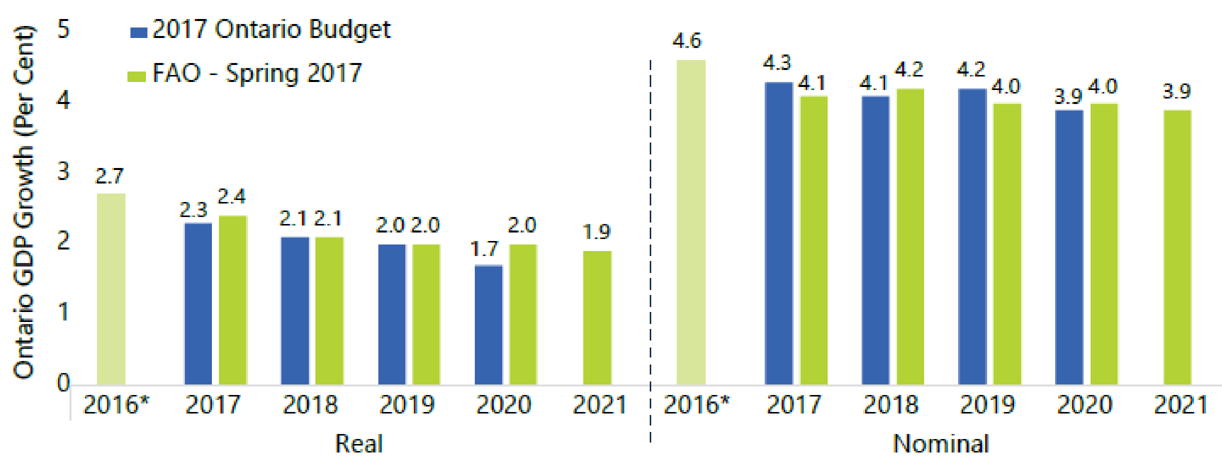
1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.

2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

<u>Economic Outlook</u>

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).

Solid Economic Performance Expected Over Outlook



* 2016 are actuals.

Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

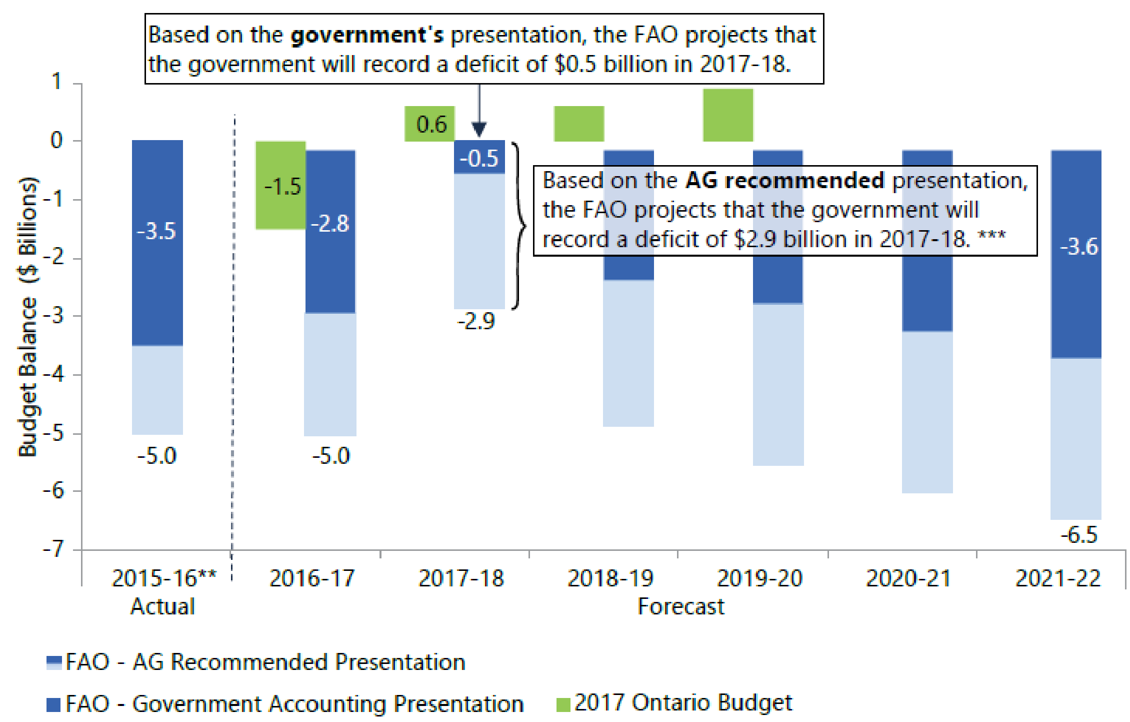
<u>Fiscal Outlook</u>

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).

- The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.

- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
  - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).
- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).

Ontario's Budget Balance*



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

- FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
- The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
- The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.

- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

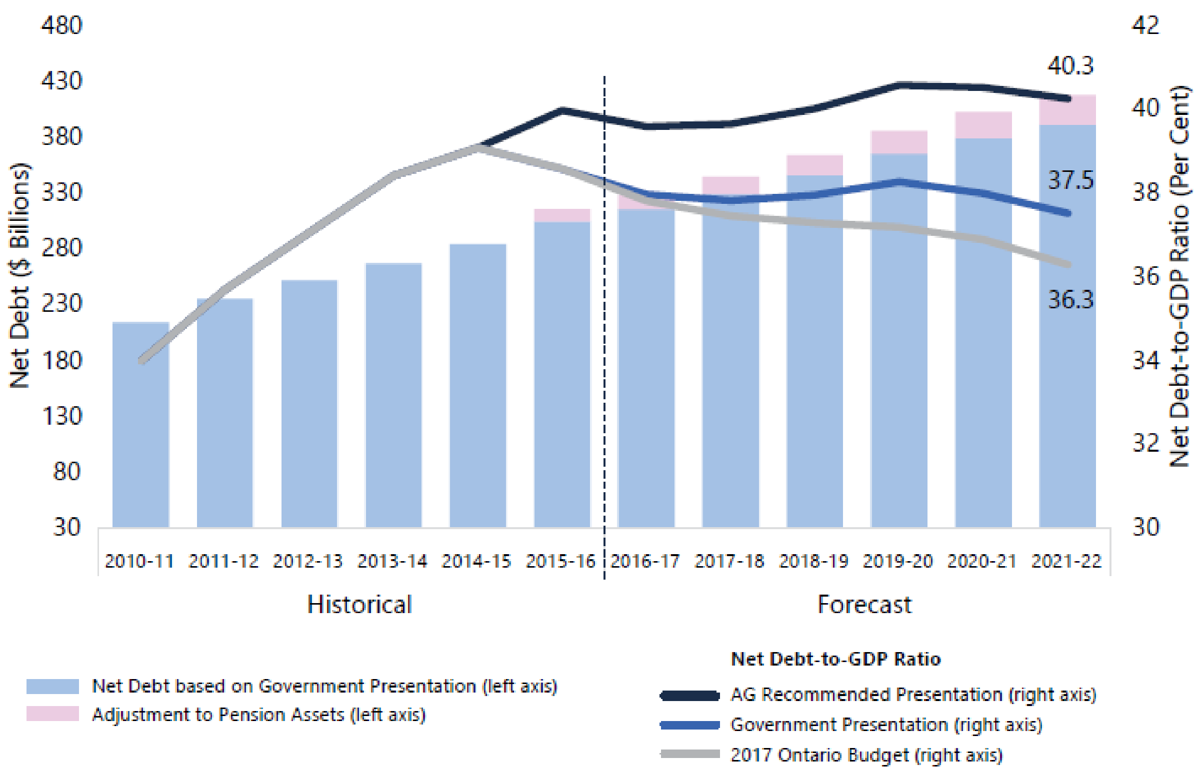
Expense Assumptions

- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
  - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
  - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
  - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)					
$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

- Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
- More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
- Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
- Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook

								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. 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	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	*-*	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
*Program Expense **	*-*	*-*	*-*	*-*	*-*					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	*-*	*-*	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	***(1.5)***	***(3.5)***	***(3.5)***	***(5.5)***	***(6.4)***					
Reserve	*-*	*-*	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	***(1.5)***	***(3.5)***	***n/a***	***n/a***	***n/a***					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			

Note: Numbers may not align with report due to rounding.

*** Program Expense excluding Adjustment for Pension Assets (captured on line below)**

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	**(5.0)**	**(5.2)**	**n/a**	**n/a**	**n/a**	**n/a**				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(3.7)**	**(1.1)**	**(1.3)**	**(1.8)**	**(2.2)**				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	***0.0***	***0.2***	***(0.3)***	***(2.1)***	***(2.3)***	***(2.3)***				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	***0.0***	***0.2***	***n/a***	***n/a***	***n/a***	***n/a***				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**-**	**0.9**	**0.6**	**(0.9)**	**(0.8)**	**(0.9)**				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			

Note: Numbers may not align with report due to rounding.

*** Based on AG recommended accounting treatment with adjustment for net pension assets.**