Update on Fiscal Outlook & Path Forward

OFFICE OF ECONOMIC POLICY

Office of the Budget MINISTRY of FINANCE

OEP MINISTRY OF FINANCE

TBS

Draft - August 31, 2016 8:30 PM

Purpose

Where the Fiscal Plan Is

- Provide a status update on revenue, expense and the overall fiscal outlook for 2016-17 to 2020-21, based on latest forecasts and assessment of risks.
- Provide a comparison of the current outlook to medium-term 2016 Budget targets and outline the current fiscal track out to 2020-21.

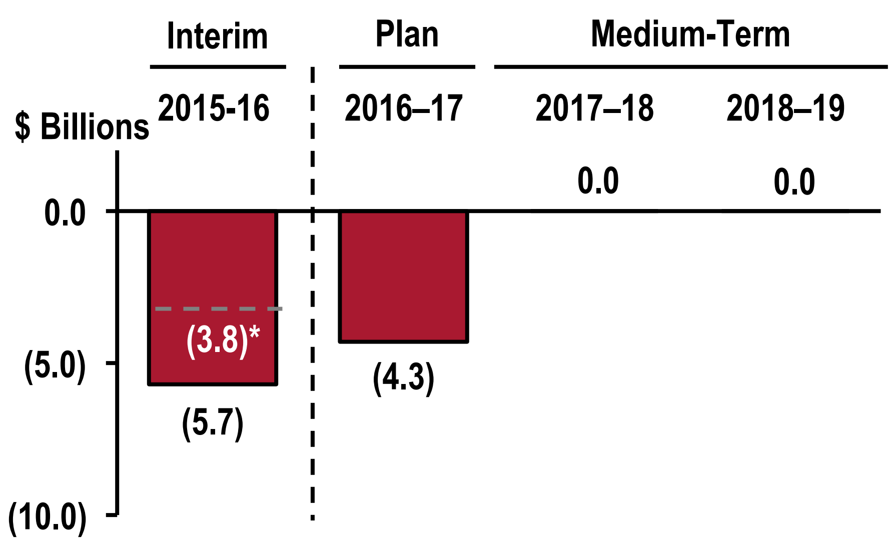
Path Forward & Potential Decisions

- Provide context for key fiscal decisions that will need to be addressed in the coming months.
- Foreshadow potential decisions required to support the government's overarching fiscal architecture, including for determining ministry expense allocations, and the fiscal strategies for the Fall Economic Statement and 2017 Document.

Context and 2016 Budget Recap

- The government laid out a plan in the 2010 Budget to balance the budget and is now only one year away from the deadline for delivering on that commitment.
- External stakeholders are looking for credible plans to balance the budget in 2017-18 and for the government to demonstrate fiscal sustainability by remaining balanced in future years.
- The 2016 Budget outlined a plan to deliver a balanced budget. Will need to take stock of progress on 2016 Budget assumptions, as delivering on these will be instrumental to the successful achievement of the plan.

2016 Budget Fiscal Targets



Net Debt-to-GDP

2016 Budget	39.6%	39.6%	38.9%	38.5%
Updated Outlook*	39.5%	39.5%	38.8%	38.4%

*Updated for preliminary actual results and revised 2015 nominal GDP.

Revenue Plan (2016-17 to 2018-19)

- **$3.4 billion** over three years in new, unconditional federal funding for infrastructure, home care and jobs and training
- **$4.2 billion** over three years in Cap-and-Trade proceeds
- **$1.3 billon** over three years in tax measures

Expense Plan (2016-17 to 2018-19)

- **$1.3 billion to $2.5 billion** per year in reduced expense from major transformation initiative plans (i.e. boulders)
- **Full Cap-and-Trade proceeds** available to fund both in-plan ($0.6 billion/year) and new climate change initiatives in 2017-18 and 2018-19
- **Contingency Funds** of $1.2 billion in 2016-17, growing to $3.5 billion in 2018-19, with portions notionally set-aside for compensation and Moving Ontario Forward

Reserve of $1.0 billion in 2016–17, $1.1 billion in 2017–18, $1.2 billion in 2018–19

PART I: *Where the Fiscal Plan Is*

New Information Since 2016 Budget

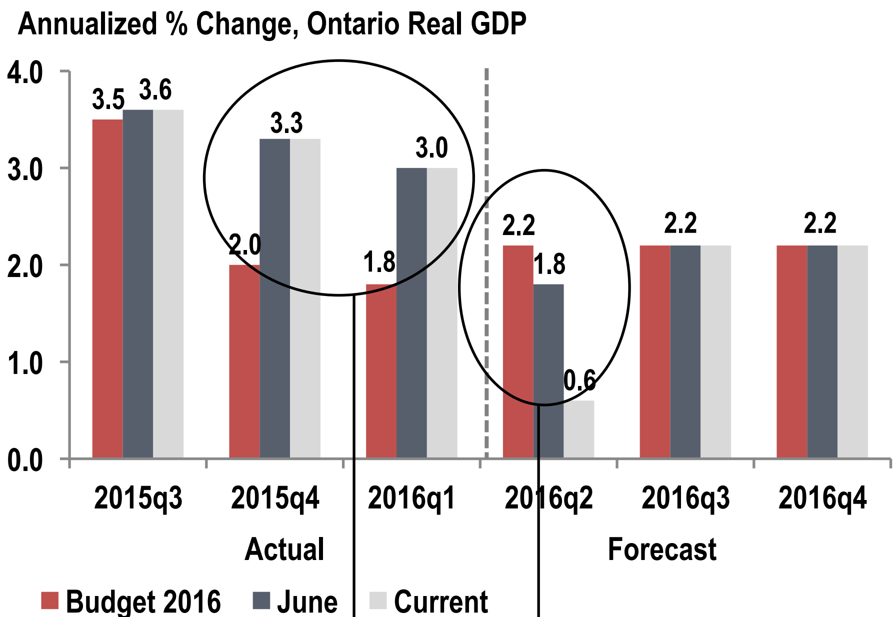
- Since the 2016 Budget, **new information has been received that impacts the fiscal outlook** and assessment of potential risks to the plan.

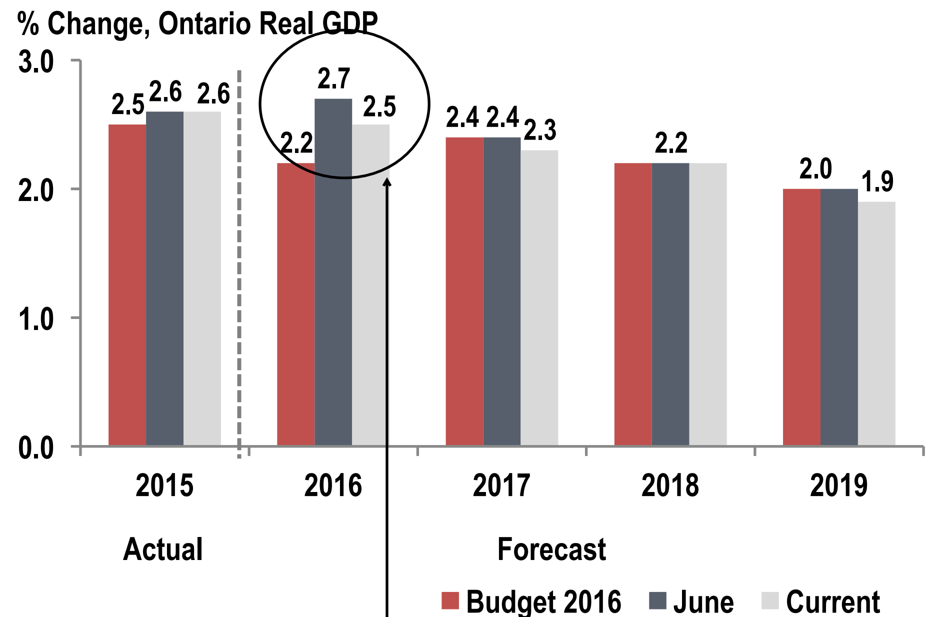
Revenue	Expense
✓ Final 2015-16 revenue results as part of Public Accounts ✓ Economic updates, including results for the first quarter of 2016 ✓ Monthly personal and corporate income tax assessments and provincially administered tax receipts ✓ Monthly updates to income forecasts for Government Business Enterprises ✓ Preliminary estimates on the net impact of asset optimization initiatives (i.e. sale of Hydro One shares and LCBO head office lands) ✓ 2016 federal budget funding announcements	✓ Final 2015-16 expense information as part of Public Accounts ✓ In-year TB/MBC expense approvals ✓ First quarter expense risk reporting from ministries ✓ Report backs from ministries on implementation of boulders ✓ New initiatives tracking through policy/cabinet committees ✓ Impact of early federal negotiations (affordable housing, postsecondary education infrastructure, and clean water/waste water) ✓ Release of Ontario's Climate Change Action Plan ✓ Updates on interest on debt forecast

- It is only halfway through the fiscal year and there is still important information to come and upcoming decisions that will impact the fiscal outlook going forward (see slide 16).

2016 Growth Remains Stronger than Budget

Ontario real GDP expected to rise 2.5% in 2016





Stronger 2015Q4 and 2016Q1

Weaker 2016Q2

Slightly stronger 2016 growth

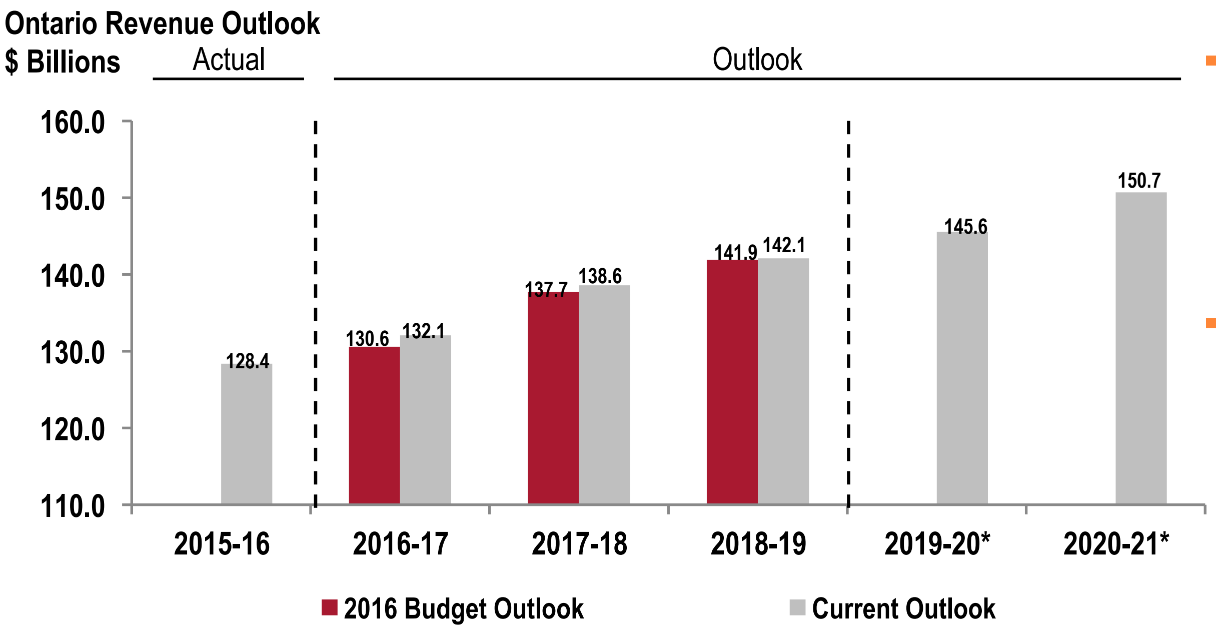
Upside Potential

- Low interest rate environment continues longer than expected supporting domestic spending and investment
- Strong housing market continues
- Stronger-than-expected demand for Ontario exports in the US and overseas
- Greater-than-expected boost to households and businesses from sustained low oil prices

Downside Risks

- Global economic uncertainty and volatility in financial markets
- Rise in US and global trade protectionism
- Intensification of global competition – Mexico, China
- Sharp housing market downturn

Revenue Outlook and Risks



* Revenue projections for 2019-20 and 2020-21 do not assume new unconditional federal transfers of $1.3 billion per year that were built into the medium-term fiscal plan as part of the 2016 Budget.

- The **revenue outlook has improved** since the 2016 Budget mainly due to:
  - Higher 2015 personal income tax assessments.
  - A moderate improvement in the economic growth outlook.
- These improvements are partially offset by:
  - A lower Equalization payment outlook starting in 2017-18.
  - A growing/increasing likelihood that the Province's share of new federal infrastructure funding may not generate the $2.5 billion in unconditional block transfers assumed in the fiscal plan.

Other Risks and Timing of Information:

- Risks related to the revenue outlook are balanced, but the range is wider than usual at this time in the year.
- The pace of economic growth, or particular components of economic growth, could change from current assumptions.
- A portion of higher Personal Income Tax revenues in 2015 may be a one-time impact, reflecting tax planning due to a new high income federal tax rate beginning in 2016 and may not carry forward in the forecast as assumed.
- There are further Equalization downside risks to 2017-18 and beyond related to potential ongoing improvement in Ontario's relative fiscal capacity and potential federal changes to the Equalization program.
- Corporate Income Tax and Harmonized Sales Tax risk are weighted to the upside at this time.
- Recent WCI auction results might represent a downside risk to Cap & Trade proceeds.
- Revenue risks will remain fairly broad until December / January.

Federal Revenue Risks

- In addition to the risk that Ontario's Equalization entitlements will decline, there is also **a risk associated with $3.4 billion in new unconditional federal revenue** built into the fiscal plan.

- Recent progress on infrastructure agreements with the federal government suggest that Ontario's share of **new federal funding will not be in the form of unconditional block transfers**.

- Instead, recent progress on agreements indicate a **requirement for some form of cost-matching/sharing** by Ontario, or flow to municipalities (e.g. transit).

Update on Federal Agreements*

$ Billions	2016-17	2017-18	2018-19
2016 Budget - New Unconditional Fed. Rev.			
Infrastructure	0.5	1.0	1.0
Home Care	0.1	0.2	0.2
Jobs and Training	0.1	0.1	0.1
2016 Budget - Total New Unconditional Fed. Rev.	**0.7**	**1.3**	**1.3**
Fiscal Impact of Agreements since 2016 Budget			
Net New Revenue	0.5	0.8	0.1
Associated Increase in Expense	0.6	1.0	0.2
Fiscal Pressure from Agreements since 2016 Budget	**0.0**	**0.2**	**0.1**
Unconditional Infrastructure Transfer not received	**0.5**	**1.0**	**1.0**
Total Fiscal Pressure from Federal Agreements	**0.5**	**1.2**	**1.1**

* Impact of Public Transit Infrastructure Fund still to be determined.

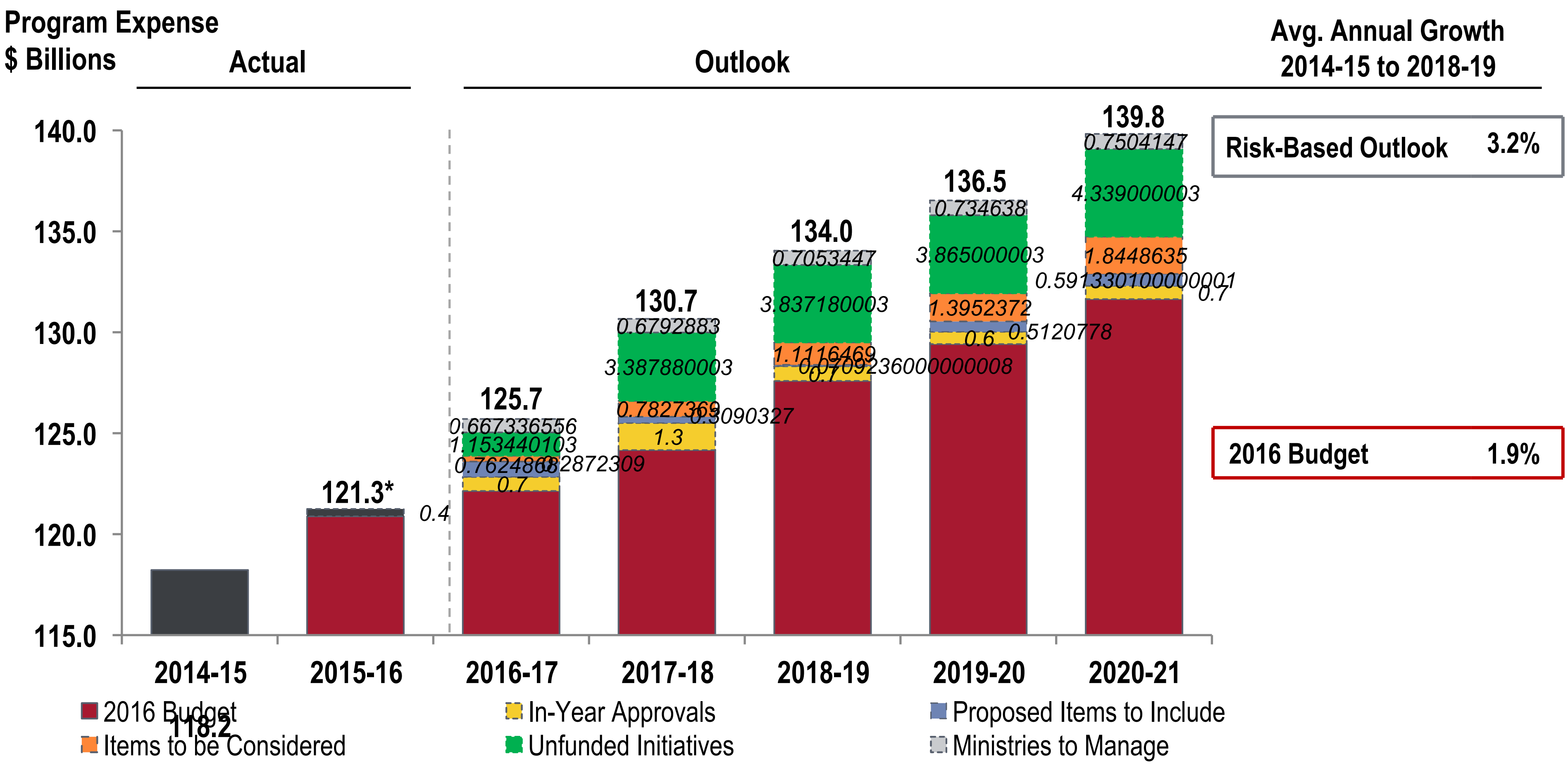
- For example, Ontario has agreed to participate in the federal Investment in Affordable Housing, Strategic Infrastructure Fund (PSE), and Public Transit Infrastructure Fund – all of which result in either cost-matching or flow to municipalities – rather than unconditional federal revenue.
- Similarly, the Clean Water/Waste Water agreement will require Ontario to provide 25 per cent of overall funding, with the federal government providing 50 per cent, and municipalities 25 per cent.

Federal Revenue Risks (continued)

- To date, Ontario has been able to offset most Provincial cost-matching/sharing with in-plan funding – thereby reducing the fiscal pressure arising from the agreements.
  - However, this does not provide the kind of fiscal benefit anticipated by an unconditional transfer.
- The federal budget also did not include funding for home care, but did include lower-than-expected funding for jobs and training in 2016-17 only.
- Taken together, the projected reduction in Equalization payments, the lack of unconditional infrastructure funding combined with the requirement to cost-match/share, and no clear federal commitments on health care and labour market training, pose an important risk to the fiscal plan.

Program Expense Outlook

- Based on in-year TB/MBC approvals to date, and a current assessment of risks and potential unfunded initiatives, the program expense outlook is projected to **grow at an average annual rate of 3.2%** between 2014-15 and 2018-19, compared to projected growth of 1.9% assumed in the 2016 Budget.
- This outlook assumes that Year-End Savings target of $0.8 billion in 2016-17 and $1.0 billion in the out-years is met and does not yet incorporate a Document initiatives envelope.



*Preliminary actual results, pending final confirmation.

Key Categories of Expense Pressures

In-Year Approvals

- First Nations Health Action Plan
- Ontario's Action Plan for Reconciliation
- School Renewal Funding
- Revision to Drug Strategy
- Clean Water and Wastewater Fund

Items to be Considered

- Transition of young adults with complex special needs from youth services
- Remaining Social Assistance forecast pressures
- Additional School Renewal Funding (2018-19 Onwards)
- Winter Highway Maintenance
- Reversal of Business Support savings targets (OMAFRA and MTCS)

Ministries to Manage

× Business Risk Management
× Accommodation and leasing pressures for MAG
× Renewed Social Enterprise Strategy
× Additional pressures in MOHLTC
× Relief from School Board Efficiency and Modernization Targets

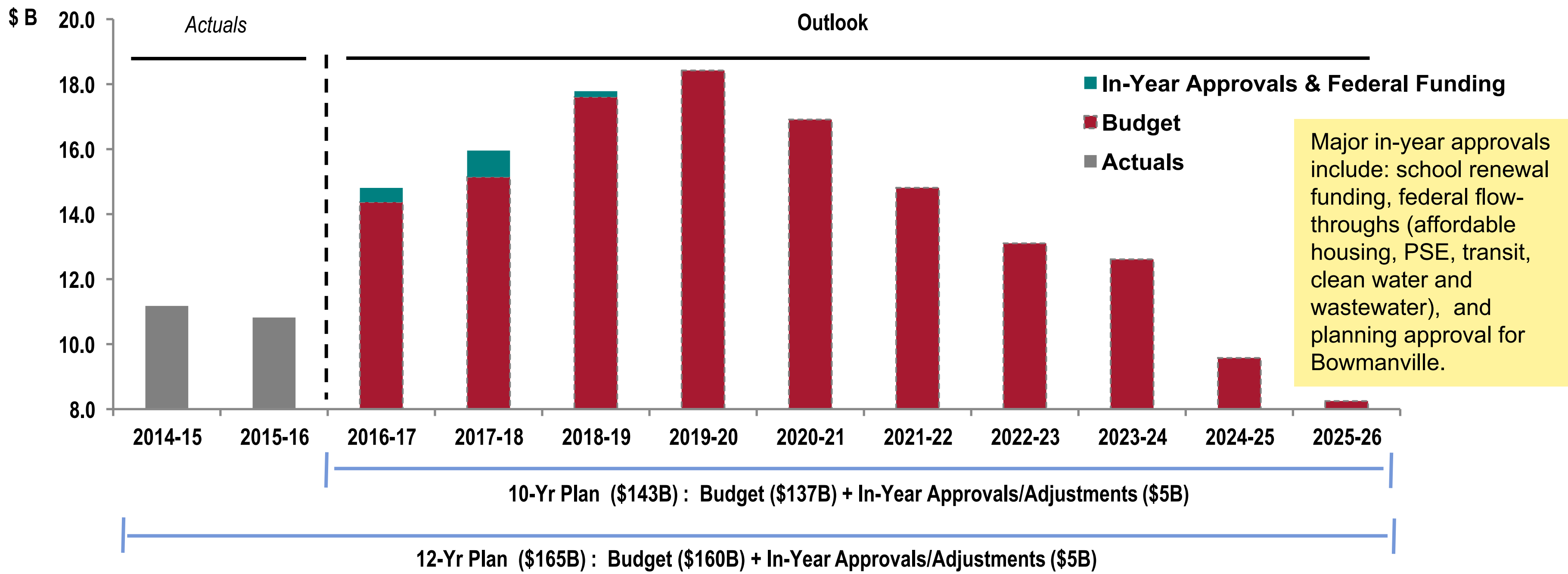
Proposed Items to Include

✓ Education Remedy: roll-over and ongoing targeted sector investments
✓ Anti-Racism Directorate
✓ First Nations Hydro One Ownership
✓ Funding for First Nations Policing – wage parity / infrastructure investments
✓ Compensation increases for future collective bargaining groups (e.g., doctors, nurses, teachers, judges, lawyers, OPP, OPSEU, AMAPCEO)
✓ Partial funding for Social Assistance forecast pressures

Unfunded Initiatives

- Child Care Expansion
- Electricity Price Mitigation
- Segregation/Corrections Transformation
- Ontario's Business Growth Initiative Update
- Service enhancements in hospitals, long-term care, primary care, cancer care and new drugs
- Social Assistance rate increases
- Establish a Serious Fraud Office
- Ontario Place Revitalization
- Response to Ombudsman's report on Developmental Services
- Renewed Auto Sector Strategy

Capital Plan Outlook



- The Capital Plan in the 2016 Budget identifies a 10-year over $137B plan (2016-17 to 2025-2026) and a 12-year $160B plan, starting in 2014-15.
- The Capital Plan includes $31.5B in dedicated funds over 10 years for Moving Ontario Forward.

Inside GTHA – approx. $16.5B	Fully committed
Outside GTHA – approx. $15B	Almost fully committed*

* Remaining set-aside of $3.2B is almost fully committed to proposed projects awaiting approval: Strategic Community Infrastructure Fund ($2.6B), London transit (up to $300M), Natural Gas (up to $50M), etc.

  - Moving Ontario Forward cannot accommodate new project costs in the short term and there is very limited capacity over the 10-year capital plan.
- Additional items to consider: school renewal funding ($570M annually from 2018-19); Bowmanville construction; RER approvals for packages 2 and 3.
- Other unfunded initiatives include: Phase 2 federal infrastructure funding which may require provincial cost-matching, Stage 2 approvals for hospital construction, AFP cost escalation; child care expansion; Ontario Place Revitalization.

Interest on Debt Outlook

- The outlook for **interest on debt** expense is below the 2016 Budget estimate, primarily due to lower-than-forecasted interest rates.

$ Billions	2016-17	2017-18	2018-19	2019-20	2020-21
2016 Budget Interest on Debt	**11.8**	**12.5**	**13.1**	**13.3**	**13.7**
Interest on Debt Forecast Update	(0.2)	(0.4)	(0.3)	(0.3)	(0.2)
Current Interest on Debt Outlook	**11.6**	**12.1**	**12.8**	**13.0**	**13.5**

Net Debt-to-GDP Outlook

Net debt is influenced by the surplus/deficit as well as investments in capital.

$$\text{2015-16 Net Debt-to-GDP} = \frac{\text{Net Debt}}{\text{Nominal GDP}} = \frac{\$294{,}890\text{ M}}{\$747{,}101\text{ M}} = 39.5\%$$

Nominal GDP is influenced by periodic updates to the economic outlook and performance.

Recent Updates

- The **current net debt-to-GDP trajectory is slightly improved compared to the 2016 Budget**, reflecting updates to net debt as part of the 2015-16 Public Accounts and nominal GDP projections as of spring 2016.
  - The medium-term net debt outlook has improved mainly due to the impact of the final deficit for 2015-16, which is anticipated to be $3.8 billion compared to an interim forecast of $5.7 billion in the 2016 Budget. Further changes to the deficit as a result of the Auditor General's review may impact the net debt outlook.
  - Nominal GDP results for 2015 were slightly lower-than-expected at the time of the 2016 Budget as a result of lower GDP inflation. This also results in a lower outlook for nominal GDP over the medium-term.

	2015-16	2016-17	2017-18	2018-19
2016 Budget Net Debt-to-GDP	39.6%	39.6%	38.9%	38.5%
Updated Net Debt-to-GDP Forecast	39.5%	39.5%	38.8%	38.4%

- Nominal GDP for 2015 (and potentially further back), as well as the outlook for 2016 and beyond, may be revised in November after the release of Statistic Canada's Provincial Economic Accounts.

Illustration: Range of Fiscal Trajectories

Fiscal Trajectory Assumptions

Upside

Revenue

- ✓ Increased revenue from improved economic forecast, tax assessment information, and in-year approvals related to other federal funding.
- ✓ Assumes no changes to cap and trade proceeds and assets.
- ✓ Assumes unconditional federal infrastructure revenue is not received.

Expense

- ✓ Increased program expense resulting from in-year approvals to date, proposed items to include and potential unfunded initiatives.
- ✓ IOD savings from lower-than-forecast interest rates.

Assumes reserve and remaining balance in the contingency fund are maintained.

Downside

Revenue

- ✓ Increased revenue from improved economic forecast, tax assessment information, and in-year approvals related to other federal funding.
- ✓ Assumes no changes to cap and trade proceeds and assets.
- ✓ Assumes unconditional federal infrastructure revenue is not received.

Expense

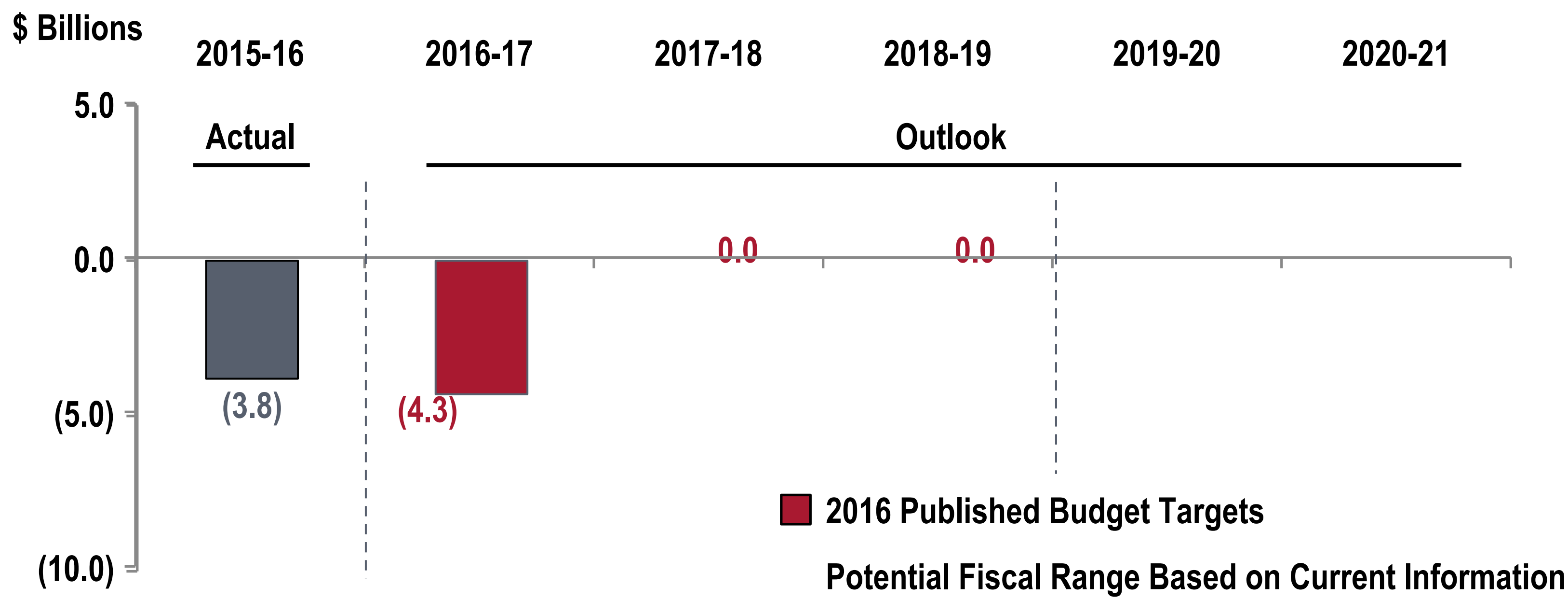
- ✓ Increased program expense resulting from in-year approvals to date, proposed items to include, potential unfunded initiatives and other risks.
- ✓ Assumes no change to interest on debt.

Assumes reserve and remaining balance in the contingency fund are maintained.

($ Billions)	Upside 16-17	Upside 17-18	Upside 18-19	Upside 19-20	Upside 20-21	Downside 16-17	Downside 17-18	Downside 18-19	Downside 19-20	Downside 20-21
2016 Budget Surplus/(Deficit)	**(4.3)**	**0.0**	**0.0**	**n/a**	**n/a**	**(4.3)**	**0.0**	**0.0**	**n/a**	**n/a**
Outlook Changes										
Revenue	*1.5*	*0.9*	*0.2*			*1.5*	*0.9*	*0.2*		
Program Expense	*2.7*	*5.0*	*4.6*			*3.6*	*6.5*	*6.5*		
IOD	*(0.2)*	*(0.4)*	*(0.3)*			-	-	-		
Total Outlook Changes	***(1.0)***	***(3.8)***	***(4.2)***			***(2.1)***	***(5.6)***	***(6.3)***		
Resulting Surplus/(Deficit)	**(5.3)**	**(3.8)**	**(4.1)**	**(3.0)**	**(1.2)**	**(6.4)**	**(5.6)**	**(6.2)**	**(5.4)**	**(4.1)**

Illustration: Range of Fiscal Trajectories

- Current information suggests that choices will need to be made or action taken in order to hit or exceed the 2016-17 deficit target of $4.3 billion, or show progress beyond the potential 2015-16 actual results.
- In 2017-18 and beyond, current information suggests a potential gap compared to the 2016 Budget fiscal targets – indicating deficits in each year over the outlook.
- This range of potential fiscal trajectories does not take into account document initiatives; information still to come throughout the year; other policy initiatives currently under consideration; and any potential actions to close the gap.
- Assumes reserve and remaining balance in the contingency fund are maintained.



Net Debt-to-GDP	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Updated Outlook	39.5%	39.5%	38.8%	38.4%	n\a	n\a
Upside	39.5%	39.6%	39.4%	39.5%	39.5%	38.9%
Downside	39.5%	39.8%	39.8%	40.1%	40.3%	40.0%

Information Still to Come

The **range of potential fiscal trajectories is preliminary**. There is still important information yet to be received and decisions that could potentially significantly impact the government's fiscal strategy:

Revenue	Expense
✓ Economic updates ✓ Estimated proceeds for cap-and-trade ✓ Ongoing federal-Provincial negotiations related to federal transfers (e.g. home care) ✓ Progress on the government's asset optimization strategy ✓ Key revenue information in December, including federal HST data and Equalization entitlements ✓ Monthly updates to personal and corporate income tax and income from Government Business Enterprises	✓ In-year TB/MBC expense approvals ✓ Decisions related to new initiatives under consideration ✓ Upcoming PRRT plans ✓ Decisions related to upcoming PRRT items that may be deferred to the 2017 Document process, including: ▪ 2017 Document initiatives ▪ Alignment of climate change investments with available proceeds ✓ Updates on compensation negotiations and alignment with set asides ✓ Interest on debt forecast updates

As more information becomes available, it will help to solidify the outlook for 2016-17 and inform planning and assumptions for the out-years.

It is helpful for the government to **consider early on potential actions** that could help to close the gap and inform future fiscal architecture decision-making as part of the PRRT and Document processes – and to inform the 2016 Fall Statement.

PART II: Path Forward

Fiscal Objectives Moving Forward

- Given the final results for 2015-16, and the current assessment of the fiscal outlook, the **government will need to consider its overall fiscal objectives and take action to ensure their achievement.** Key objectives consistent with the government's fiscal strategy to date could include:
  - Improving the **2016-17 deficit reduction** to align with 2015-16 actual results;
  - Ensuring **balance is achievable in 2017-18**;
  - **Maintaining balance or planning for surpluses** for longer-term targets (i.e. 2018-19 for FES, and 2019-20 for 2017 Document);
  - Showing progress on **debt sustainability**.
- Fiscal cornerstones remain ensuring the integrity of **Provincial revenues** and the ongoing work through **Program Review, Renewal and Transformation (PRRT).**
- However, as funding for **new initiatives or pressures** is considered, **additional actions** may need to be initiated to order to meet overall fiscal objectives – beginning already in 2016-17.
- **Revenue and expense information will also continue to evolve,** particularly late in 2016 and early 2017, and will need to be monitored against plans.

Fiscal Architecture Choices and Considerations

The government has the opportunity now to help ensure the achievement of both new initiatives and fiscal objectives, by taking action now to determine what initiatives to prioritize in the fiscal plan and consider available choices/trade-offs.

Potential Tools

- Tools can involve altering/scaling existing plans or introducing new measures, and can be employed at different times depending on the need for immediate or longer-term relief.
  - Adjusting fiscal plan provisions like the ***size of the contingency fund or reserve*** may provide marginal flexibility.
  - ***Scaling back, delaying, or otherwise reducing*** the fiscal impact of new initiatives.
  - Given pressures in key sectors (health, social services), may be limited opportunity to significantly further restrain the expense outlook, but could ***consider new boulders*** to help manage growth over the longer-term or consider ***additional savings targets*** in the near-term.
  - ***Revenue measures*** such as re-profiling the existing asset optimization plan and revisiting measures like changes to municipal finance.
  - ***Robust engagement with the federal government*** to secure additional funding in areas such as health care and labour market transfers, while seeking ways to protect declines in other transfers (e.g. Equalization floor protection).
- May need to explore new, robust tools to ensure long-term fiscal sustainability.

Opportunities for Communicating Fiscal Plan Narrative

- The government has several opportunities leading up to the 2017 Budget to update the fiscal plan narrative.
- Changes to the narrative could be made to correspond to changes in the fiscal plan, or could foreshadow future changes in text only.
- The Fall Economic Statement and the Budget are ideal opportunities for substantial changes. Other fiscal updates provide an opportunity for the fiscal narrative to gradually evolve throughout the fiscal year.

2016-17 First Quarter Finances
- ✓ On track to balance the budget
- ✓ Fiscal targets unchanged

2015-16 Public Accounts
- ✓ Consider fiscal trajectory
- ✓ Could foreshadow fiscal updates for upcoming FES

2016 Fall Economic Statement
- ✓ Opportunity to revise fiscal targets
- ✓ Could smooth out fiscal trajectory (2015-16 to balance)
- ✓ Opportunity to communicate debt narrative

Long Term Report
- ✓ Committed to releasing before the end of 2016-17
- ✓ Opportunity to communicate fiscal sustainability message and address debt concerns

2016-17 Third Quarter Finances
- ✓ Opportunity to reaffirm fiscal narrative or foreshadow any changes for upcoming Budget

2017 Document
- ✓ Publish the balanced-budget Budget
- ✓ Take credit for the plan to eliminate the deficit that was laid out in the 2010 Budget
- ✓ Opportunity to pivot fiscal narrative to focus on fiscal sustainability rather than targets

Next Steps

- ***In light of the current fiscal outlook:***
  - *Determine fiscal objectives and priorities to set fiscal architecture.*
  - *Develop options and actions necessary to achieve objectives.*
  - *Monitor and assess expense and revenue information, as well as potential risks and new initiatives – to ensure informed decision-making over the planning period.*

Key deliverables over the coming weeks:

- MMP meeting to update on fiscal outlook and set objectives and priorities (Sept)
- Update Cabinet on Public Accounts and out-year fiscal outlook (Sept)
- Develop and issue ministries' [5-year] preliminary allocations (Sept)
- Develop FES fiscal strategy, to update the public on 2016-17 to 2018-19 (Sept/Oct)

Appendix

Details of the Current Revenue Outlook

Revenue Changes Since the 2016 Budget $ Billions	2016-17	2017-18	2018-19	2019-20*	2020-21*
2016 Budget	**130.6**	**137.7**	**141.9**		
June Updates					
Economic Outlook & Revenue Information	*0.6*	*0.6*	*0.6*		
Equalization	*-*	*(0.2)*	*(0.4)*		
Total June Updates	***0.6***	***0.4***	***0.2***		
August Updates					
PIT/OHP Assessments	*0.9*	*1.0*	*1.1*		
Canada Health and Social Transfers	*0.0*	*0.1*	*0.1*		
Equalization	*-*	*(0.4)*	*(0.5)*		
Net Federal infrastructure funding changes	*0.0*	*(0.2)*	*(0.9)*		
Total Revenue Changes Since 2016 Budget	***1.5***	***0.9***	***0.2***		
Current Revenue Outlook	**132.1**	**138.6**	**142.1**	**145.6**	**150.7**

* Revenue projections for 2019-20 and 2020-21 do not include new unconditional federal transfers for Infrastructure, Home Care, Jobs and Training ($1.3 billion each year) assumed in the fiscal plan.

Key Revenue Risks

Source	2016-17	2017-18 and onwards	Key Information Timing
Economic Growth Outlook	+/- $0.4B	+/- $0.8B	Key information still to come includes quarterly 2016 Canada Economic Accounts (August Q2, November Q3) and 2015 Provincial Economic Accounts in November 2016.
2015 Personal Income Tax Assessments	+/ - $0.6B	+/- $0.3B	New information monthly, finalized in January 2017.
2014 & prior year Personal Income Tax Assessments	$0.0 to $0.4B	$0.0 to $0.2B	New information monthly, finalized in January 2017.
2016 PIT Assessments (Tax Planning)	-$1.4B to $0.0B	-$0.7B to $0.0B	Analysis ongoing. Preliminary 2016 assessment information will begin flowing in June 2017.
2015 Corporate Income Tax Assessments	$0.0B to +$1.0B	$0.0B to +$0.5B	New information monthly, finalized in January 2017.
Harmonized Sales Tax	-$0.2B to $0.5B	-$0.3B to $0.8B	Provincial Economic Accounts (November 9 2016) and federal entitlement estimates (December 2016.)
Equalization	-	-$0.5B in 2017-18, -$1.3B in 2018-19, -$1.0B 2019-20 onwards	Tax and economic information incorporated on an ongoing basis. Conference Board of Canada forecasts (May, August, November) are a key input into the forecast. 2017-18 final entitlement communicated in December.
New Federal Funding Assumed in 2016 Budget	-$0.2B	-$0.3B	Discussion with federal government ongoing. Federal Budget.
Cap and Trade Proceeds	-$0.4B to $0.0B	-$1.5B to $0.0B	Quarterly auctions commencing March 2017.
Government Business Enterprises	-$0.2B to +$0.4B	$0.0B to +$0.4B	Quarterly financial reports from OPG, OLG and LCBO.
Asset Optimization Target	TBD	TBD	Depends on market conditions at the time of sale (e.g., share prices and property values).

Investment in Affordable Housing

- The 2016 Social Infrastructure Fund (SIF) Agreement with the Canada Mortgage and Housing Corporation requires Ontario to spend revenue received from the federal government as well as its own provincial contribution.
- Due to Building Canada Fund under-spending, a portion of in-plan expense can be re-directed to offset revenue received through the agreement. Therefore, there is no fiscal impact in years one and two. Due to re-profiling some funding to 2018-19, an offset is required in year three.

Implementation: Revenue ($ Millions)			
	2016-17	**2017-18**	**2018-19**
SIF	348.8	124.0	-
BCF*	(209.0)	(124.0)	-
Total	**139.8**	**-**	**-**

* Ontario will receive less than planned as a result of under-spending on the Building Canada Fund.

Implementation: Expense ($ Millions)			
	2016-17	**2017-18**	**2018-19**
SIF	411.1	146.0	84.0
Federal BCF*	(209.0)	(124.0)	
Provincial BCF*	(62.4)	(22.0)	(49.4)
Total	**139.8**	**-**	**34.6**

* A portion of the federal flow-through and provincial BCF will be used to offset federal revenue as a result of under-spending on the Building Canada Fund.

Other Federal Transfers

Postsecondary Education Strategic Investment Fund

- Ontario will cost-match a portion of the federal investment with PSE institutions providing the remaining cost-matching funding.
- Ontario's contribution will come from in-plan PSE refurbishment projects (Facilitates Renewal Program) and will have no fiscal impact.

Clean Water and Wastewater Fund

- The Clean Water/Waste Water Agreement is not an unconditional transfer. It will require Ontario to contribute 25% of total project costs. There is currently no in-plan offset for Ontario's contribution.

Clean Water and Wastewater Fund ($ Millions)			
	2016-17	**2017-18**	**2018-19**
Total Revenue	**85.5**	**341.7**	**142.4**
Expense			
Federal flow-through	85.5	341.7	142.4
Provincial contribution	40.0	160.1	66.7
Total Expense	**125.5**	**501.8**	**209.1**
Fiscal Impact	**40.0**	**160.1**	**66.7**

Details of the Program Expense Outlook

Details of the Program Expense Outlook					
$ Billions	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
2016 Budget	**122.1**	**124.2**	**127.6**	**129.4**	**131.6**
In-Year Approvals					
In-year Approvals	*0.0*	*0.2*	*0.3*	*0.2*	*0.2*
In-year Approvals – Provisionary	*0.7*	*1.1*	*0.5*	*0.4*	*0.4*
Total In-Year Approvals	***0.7***	***1.3***	***0.7***	***0.6***	***0.7***
Proposed Items to Include					
Proposed Items to Include	*0.8*	*0.3*	*0.1*	*0.5*	*0.6*
Transfers and Adjustments	*(0.0)*	*0.0*	*0.0*	*0.0*	*0.0*
Total Proposed Items to Include	***0.8***	***0.3***	***0.1***	***0.5***	***0.6***
Items to be Considered	***0.3***	***0.8***	***1.1***	***1.4***	***1.8***
Ministry to Manage	***0.7***	***0.7***	***0.7***	***0.7***	***0.8***
Unfunded Initiatives	***1.2***	***3.4***	***3.8***	***3.9***	***4.3***
Risk-Based Outlook	**125.7**	**130.7**	**134.0**	**136.5**	**139.8**

Includes First Nations Health Action Plan and Autism Reform

Includes Truth and Reconciliation Commission, Income Testing Revision to Drug Strategy, Strategic Investment Fund, Clean Water and Wastewater Fund

Includes partial funding for Social Assistance forecast pressures, Education Remedy, FN Policing

Includes Transitioning Young Adults with Special Needs, Remaining SA forecast pressure, Business Supports Risk

School Board Efficiencies and Modernization Targets, Business Risk Management, Renewed Social Enterprise Strategy

Includes Electricity Price Mitigation, Child Care Expansion, Auto Sector Strategy, SA rate increase, Health Care Service Enhancements

In-Year Approvals

$ Millions	Item	2016-17	2017-18	2018-19	2019-20	2020-21
MOHLTC/ MCYS	First Nations Health Action Plan	40.4	75.7	105.5	104.5	104.5
MCYS	Autism Reform	91.3	64.6	5.0	5.0	-
MCYS	Child Welfare Reform (Preliminary impact)	-	2.8	35.4	46.2	49.9
EDU	School Renewal Funding	37.6	43.8	41.7	41.7	41.7
Various	Truth and Reconciliation Commission	24.7	109.3	124.5	120.2	120.2
MOHLTC	Income Testing - Revision to Drug Strategy	106.0	170.0	188.0	238.0	288.0
MAESD	Strategic Investment Fund	293.1	489.5	0.7	-	-
MEDEI	Clean Water and Wastewater Fund	85.5	341.7	142.4	-	-
MMAH	Social Infrastructure Fund	139.8	-	-	-	-
MNRF	Emergency Forest Firefighting	65.0				
Various	Other*	(188.0)	46.3	82.2	53.3	53.8
	Total In-Year Approvals	**695.3**	**1,343.7**	**725.4**	**609.0**	**658.1**

* Including Cfund offsets

Proposed Items to Include

$ Millions	Item	2016-17	2017-18	2018-19	2019-20	2020-21
MTO	Municipal Transit project delays	(61.1)	36.1	(1.7)	7.3	-
MCSS	Social Assistance Forecast (partially funded)	150.0	175.0	200.0	250.0	300.0
MOHLTC	Ontario Health Insurance Plan (OHIP)	178.4	-	-	-	-
MOHLTC	Cancer Care Ontario	66.2	-	-	-	-
MTO*	Metrolinx Operating Subsidy - Go Transit Regional Express Rail	-	27.1	38.5	57.6	71.7
MOECC*	Drive Clean	-	38.5	38.5	38.5	38.5
MAESD	OSAP Changes	(60.0)	50.0	50.0	50.0	50.0
MOHLTC	Hospital Compensation	105.0	227.0	353.0	465.0	582.0
MOHLTC	OHIP Compensation	-	260.0	309.0	301.0	301.0
MOHLTC	Other Compensation	18.0	31.0	52.0	66.0	83.0
EDU	Remedy: Roll-Over and One-Time Expenditures	-	176.4	280.0	280.0	280.0
EDU	Remedy: Ongoing Targeted Sector Investments	-	94.5	150.0	150.0	150.0
EDU	Education Agreements After One Year of Roll-Over	-	-	190.0	500.0	810.0
EDU	Provincial Benefits Trusts - Ongoing Costs	15.0	56.0	56.0	56.0	56.0
MCSCS	OPPA Collective Agreement	21.6	44.1	56.9	56.9	56.9
MCSS	Compensation Increases Risk	-	25.0	50.0	75.0	100.0
TBS	OPSEU 2018-19 and beyond	-	7.2	36.3	73.2	118.1
Various	Other	238.1	174.0	232.1	286.7	313.8
Cap&Trade	Cap and Trade Update	91.4	103.3	655.8	669.0	692.2
Cfund	Reset Operating Contingency Fund to $500M	-	(1,216.2)	(2,675.5)	(2,870.2)	(3,412.0)
	Total Proposed Items to Include	**762.5**	**309.0**	**70.9**	**512.1**	**591.3**

* Ministries to report back to TB/MBC with strategies to mitigate out-year fiscal impact

Items to Consider

$ Millions	Item	2016-17	2017-18	2018-19	2019-20	2020-21
MCSS	Social Assistance Forecast (residual from forecast)	76.3	263.4	388.9	471.6	607.0
MCSS	Transition Adults with Special Needs	-	80.0	120.0	160.0	200.0
MEDEI/ MRI	Strategic Community Infrastructure Fund	-	-	160.0	420.0	690.0
MEDEI	Clean Water and Wastewater Fund (Provincial share)	40.0	160.1	66.7	-	-
MCSS	[CORP] Benefits Transformation	-	54.7	49.6	29.6	14.6
EDU	School Renewal Funding - 2018-19 onwards	-	-	48.5	79.3	103.4
MTO	Winter Highway Maintenance	4.0	25.7	25.9	26.0	26.2
MAA	Land Claim Risks	50.8	-	-	-	-
[BLDR]	Business Supports Risk	53.0	125.3	165.8	119.8	99.8
[BLDR]	Service Fee Boulder Risks	19.4	33.5	41.2	51.1	59.9
Various	Other	43.7	40.0	45.0	37.8	44.0
	Total Items to Consider	**287.2**	**782.7**	**1,111.6**	**1,395.2**	**1,844.9**

Unfunded Initiatives

$ Millions	Item	2016-17	2017-18	2018-19	2019-20	2020-21
Energy	Electricity Mitigation Program	300.0	1000.0	1000.0	1000.0	1000.0
Cap&Trade	Cap and Trade Offset for Electricity Mitigation		(60.0)	(60.0)	(60.0)	(60.0)
MOHLTC	Hospitals	360.0	400.0	450.0	500.0	550.0
MOHLTC	Community Care	-	100.0	200.0	300.0	400.0
MOHLTC	Drug Programs - Utilization	-	100.0	150.0	200.0	250.0
MOHLTC	OHIP - Other	-	60.0	70.0	140.0	200.0
MOHLTC	Long-Term Care Homes	-	20.0	40.0	60.0	80.0
MOHLTC	Other Program Pressures	-	100.0	150.0	200.0	250.0
EDU	Child Care Expansion	-	757.0	771.0	785.0	799.0
MEDEI/MRI	Project Momentum	404.3	426.3	436.3	-	-
MCSS	Social Assistance Rate Increase	-	70.0	200.0	330.0	460.0
MCSS	Developmental Services response to Ombudsman	-	50.0	50.0	50.0	50.0
MEDEI/MRI	Business Growth Initiative – Next Phase	39.1	84.2	84.2	84.2	84.2
MCSCS	Segregation/Correctional Services Transform	-	65.0	82.5	82.5	82.5
MAG/ MCSCS	Serious Fraud Office	-	60.0	60.0	60.0	60.0
MAESD	OSAP Changes – Additional Pressures	-	50.0	50.0	50.0	50.0
Various	Other	50.0	45.4	43.2	23.3	23.3
	Total Unfunded Initiatives	**1,153.4**	**3,387.9**	**3,837.2**	**3,865.0**	**4,339.0**

Ministry to Manage

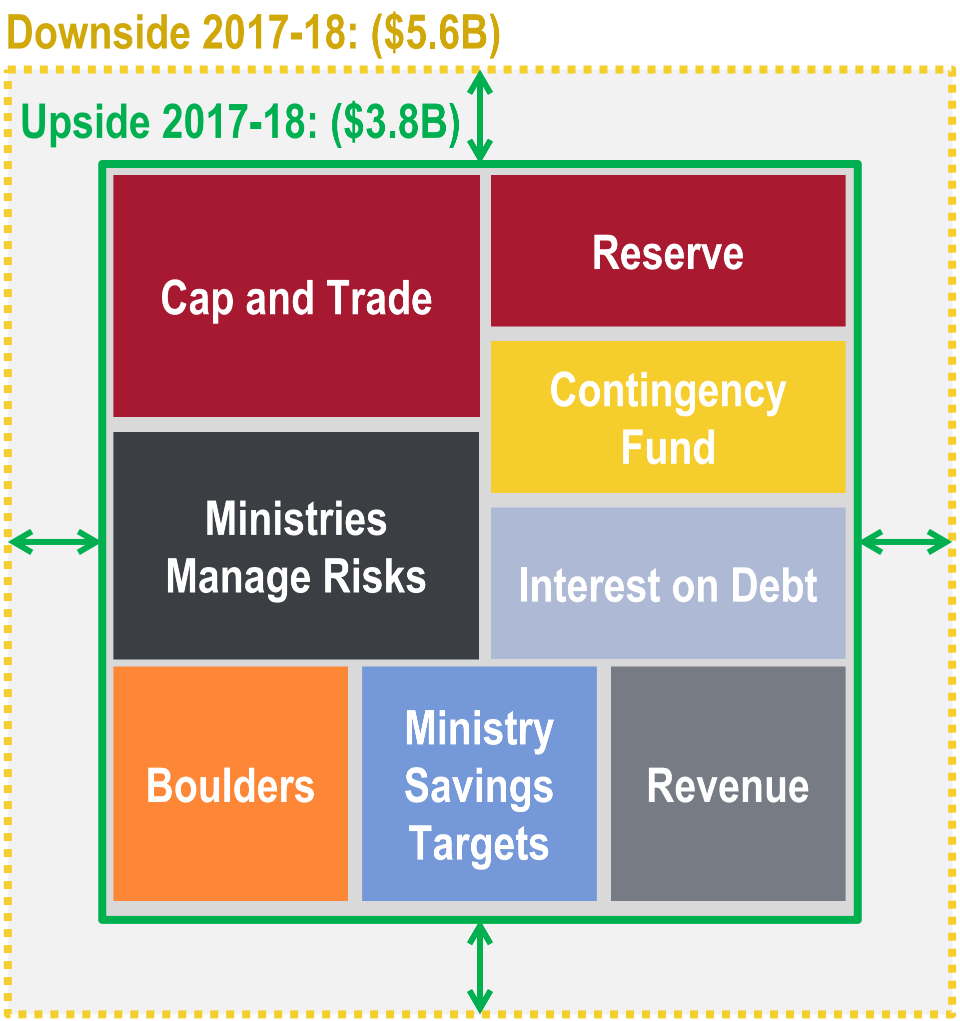
$ Millions	Item	2016-17	2017-18	2018-19	2019-20	2020-21
MOHLTC	Non-Major Sectors Pressures Across Ministry	152.5	225.0	225.0	225.0	225.0
OMAFRA	Business Risk Management	85.7	85.7	85.7	85.7	85.7
EDU	School Board Efficiencies and Modernization	37.2	61.6	-	-	-
EDU	Grants for Student Needs (GSN) Enrolment Risk	15.8	40.8	65.8	90.8	115.8
EDU	Remedy - Ongoing Targeted Sector Investments (Ministry Portion)	-	31.5	50.0	50.0	50.0
EDU	School Board Consolidation Pressure	159.4	-	-	-	-
MNRF	Emergency Forest Firefighting	-	60.0	60.0	60.0	60.0
MTO	Other Next Wave (Yonge North Subway & Relief Line)	11.1	21.5	41.5	50.0	50.0
MTO	Metrolinx Operating Subsidy - PRESTO	-	13.8	22.4	29.6	29.6
MNDM	New Contaminated Sites	103.6	-	-	-	-
Various	Other	102.0	139.4	155.0	143.6	134.4
	Total Ministry to Manage	**667.3**	**679.3**	**705.3**	**734.6**	**750.4**

Contingency Fund Status

$ Millions	Fiscal Basis 2016-17
2016 Budget Plan	**1,200.0**
TB/MBC Approvals - As Minuted	
Disaster Relief: Ecuador and Fort McMurray Wildfire (Chair's Delegated)	(1.0)
Priority Initiatives that Support Ontario's Indiginous Communities (April 12)	(1.8)
Child Support Payments Exemption (April 12)	(2.7)
Chapleau Cree Stage 2B (May 3)	(0.7)
Ontario Corn Fed Beef Market Development Strategy (May 3)	(3.1)
First Nations Health Action Plan (May 17)	(40.4)
Business Growth Initiative - Tranche 1 (Jun 21)	10.0
Autism Reform (Jun 21)	(91.3)
National Disaster Mitigation Program (Jun 21)	(0.9)
Anti-Racism Directorate Request for Additional Resource (Jun 21)	(2.9)
2016-17 Treasury Board Order for Public Protection (Jul 19)	(65.0)
Transfer of Brant -- Burtch Correctional Centre (Jul 19)	(4.3)
Provincial Anti Human Trafficking Coordination Office (Aug 12)	(1.4)
ORPP AC Wind-Up (Aug 23)	(20.0)
Adjustment for items where expense not recorded	1.2
Total TB/MBC Approvals	**(224.4)**
Current Balance (Fiscal Basis)	**975.7**
Other potential draws if ministries cannot manage	
Truth and Reconciliation Commission	(24.7)
Strategy to End Human Trafficking	(3.9)
MCSCS: NAN/Self-administered Policing	(10.5)
MAG - Motherisk Commission and Police Oversight Review	(8.5)
Income Testing - Revison to Drug Strategy	(106.0)
MMAH: Social Infrastructure Fund (federal flow-through)	(139.8)
TCU: Strategic Investment Fund (federal flow-through)	(293.1)
MEDEI: Clean Water and Wastewater Fund	(85.5)
EDU: School Renewal Funding	(37.6)
Total Other potential draws if ministries cannot manage	**(709.5)**
Remaining Balance	**266.2**

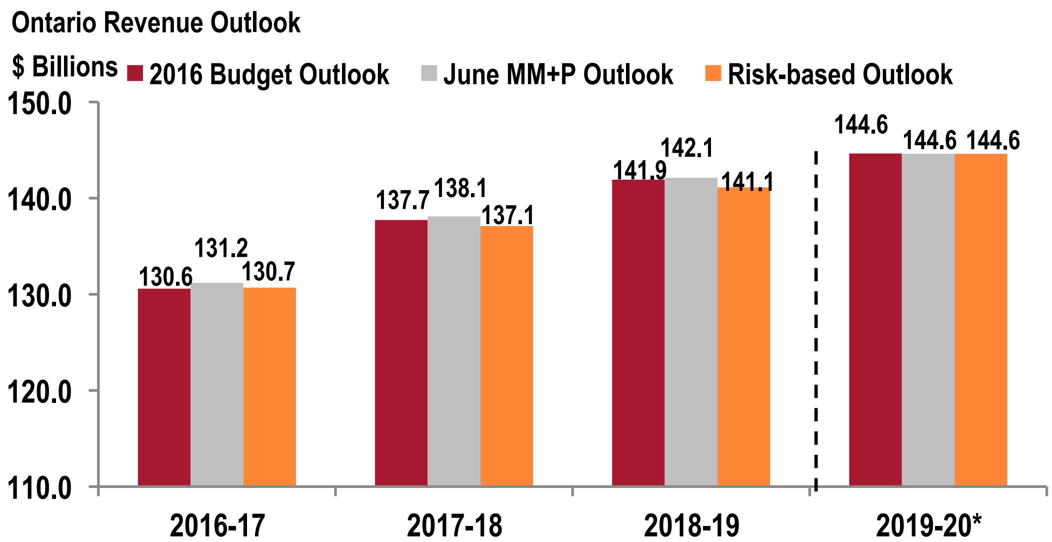
Note: the 2016 Budget Plan included a year-end savings target of $800 million in 2016-17. Does not reflect impact of other potential items (e.g. Electricity Mitigation, Auto Support, Child Care Expansion, etc.,)

Considerations for Fiscal Architecture



- As new information becomes available or decisions are made as part of the lead-up to the 2017 Document, the fiscal outlook may fluctuate.
- However, an early decision on key fiscal objectives, action and overall architecture, complimented by decisions on preliminary ministry allocations, will help ensure maximum flexibility and time for decision-making and implementation of actions or initiatives.
- Actions may need to be scaled depending on timing, government objectives, and policy risks. In addition, actions to be employed may be different depending on the fiscal year (e.g., 2016-17 vs. out-years).

Details of the June MM+P Revenue Outlook



Revenue Changes since the 2016 Budget				
$ Billions	**2016-17**	**2017-18**	**2018-19**	**2019-20***
Prudence in 2016 Budget	—	—	—	—
Economic Outlook	*0.5*	*0.5*	*0.6*	*0.6*
Revenue Information	*0.1*	*0.1*	*0.1*	*0.1*
OLG	—	—	—	—
Equalization	—	*(0.2)*	*(0.4)*	*(0.7)*
Total Changes: June MM+P Revenue Outlook	**0.6**	**0.4**	**0.2**	**(0.0)**
Federal Revenue Risk (Infrastructure)	(0.5)	(1.0)	(1.0)	—
Total Risk-Based Changes to Revenue	**0.1**	**(0.6)**	**(0.8)**	**(0.0)**

Potential Improved Scenario

Potential Deteriorated Scenario

* Revenue projections for 2019-20 do not include new federal transfers of $1.3 billion. 2019-20 projections were not published in the 2016 Budget.

June MM+P Contingency Fund Outlook and Expense Risks

Contingency Fund Outlook

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Opening contingency fund balance	**0.5**	**0.7**	**1.2**	**1.7**	**3.5**
Less: Approvals to date[1]	0.0	0.0	0.3	0.5	0.6
Current contingency fund balance	**0.5**	**0.6**	**0.9**	**1.2**	**2.9**
Less: Compensation Risks set-aside	-	-	0.4	0.9	1.6
Less: Moving Ontario Forward set-aside	-	-	-	0.0	0.4
Contingency fund balance incl. set-asides			**0.5**	**0.3**	**0.9**

[1] For 2014-15 and 2015-16, approvals through Q3 are shown.

Includes Drug Program changes, Child Welfare, Northern Health Action Plan, Action Plan for Reconciliation, School Renewal Funding

Accommodates approximately 1.4% increases in next round of bargaining

- Of the remaining 2016-17 contingency fund, $0.6 billion is encumbered for education capital appropriation, leaving $0.3 billion to cover any contingencies.
- The 2016 Budget included a larger contingency fund, primarily due to funds set aside for future compensation increases and outside the GTHA Moving Ontario Forward projects.
- There have been more draws from the contingency fund in the current fiscal cycle, compared to recent years.
- The remaining contingency fund balance would be used to offset risks.

Expense Risks: Items to be managed

$ Billions	2016-17	2017-18	2018-19
Identified high-likelihood risks	0.4	0.7	1.0
PRRT boulder risks	0.1	0.3	0.3
Cap and trade not applied against in-plan items as assumed	-	0.0	0.6
Other likely funding requests	0.6	0.7	0.7
Total items to be managed*	**1.0**	**1.7**	**2.6**

* Does not include a remedy for the Bill 115 court decision

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Year-end Savings Target	**1.1**	**1.0**	**0.8**	**1.0**	**1.0**
Total Risks to be managed			**1.8**	**2.7**	**3.6**

Pressures such as: Health, Social Assistance caseloads, emergencies, Complex Special needs

Risks include: Business Supports, Benefits Transformation and NTR/full cost recovery

Health, MTO (including UP Express), Business Growth Initiative request, Drive Clean.

- In past years, unspent contingency funds have been used to meet the year-end savings target.
- An initiatives envelope for the 2017 or 2018 Budgets has not yet been incorporated into the fiscal plan.

Note: Numbers may not add due to rounding