Appendix to MMP:
2016 Fall Economic Statement Fiscal Outlook

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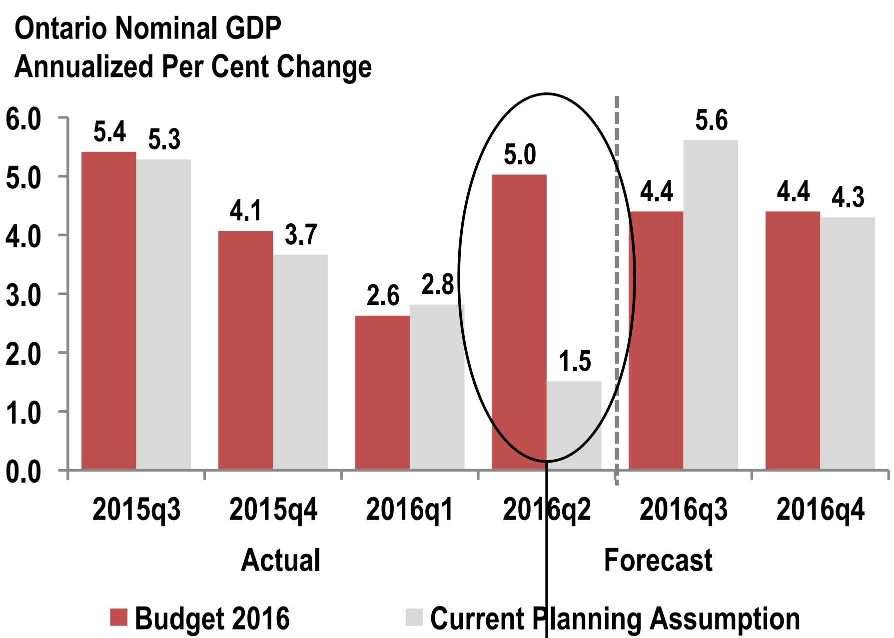
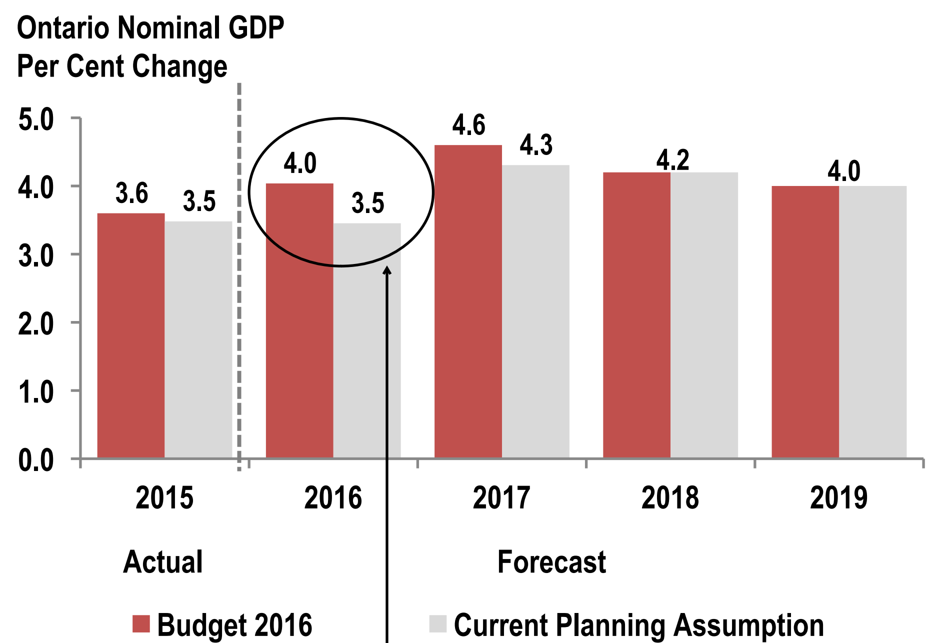
Slower Nominal GDP Outlook





Significantly weaker Q2

Lower forecast for 2016

Since the 2016 Budget, nominal GDP growth is lower in 2015, 2016 and 2017.

Revenue Changes Since 2016 Budget

The revenue outlook update reflects:

- slower nominal GDP growth, in part reflecting the Q2 Economic Accounts
- the impact of a stronger 2015 housing market,
- the latest 2014 and 2015 tax assessment information, and
- new federal agreements

($ Billions)	2016-17	2017-18	2018-19
2016 Budget Revenue Outlook	**130.6**	**137.7**	**141.9**
Economic/Revenue Update			
Slower Nominal GDP Growth	(0.4)	(0.5)	(0.3)
Stronger Housing Resale Market	0.3	0.4	0.3
Subtotal:	**(0.1)**	**(0.2)**	**0.0**
Higher 2015-16 Tax Revenues	**1.5**	**1.6**	**1.7**
Federal Transfers*	**(0.2)**	**(0.7)**	**(1.2)**
Total Revenue Changes Since 2016 Budget	**1.2**	**0.6**	**0.6**
September 30 Revenue Outlook	**131.8**	**138.4**	**142.5**

Totals may not add up due to rounding

***Other Federal Transfers Update includes:**

- Removal of unconditional infrastructure funding assumption 2016-17 to 2018-19 and home care for 2016-17.
- New strategic investment funds (affordable housing, post-secondary education, clean water and wastewater)
- Equalization, CHT and CST updates

Key Revenue Drivers changed since Budget

Ontario Forecast Details (Annual, % Change)	2014	2015		2016		2017		2018		2019	
	Actual	Budget	Actual	Budget	FES	Budget	FES	Budget	FES	Budget	FES
Real Gross Domestic Product	2.7	2.5	2.6	2.2	2.5	2.4	2.2	2.2	2.1	2.0	1.9
Nominal Gross Domestic Product	4.1	3.6	3.5	4.0	3.5	4.6	4.3	4.2	4.2	4.0	4.0
Key Revenue Drivers											
Compensation of Employees	3.4	3.3	3.9	4.4	4.0	4.5	4.2	4.5	4.6	4.4	4.6
Net Operating Surplus - Corporations	12.7	2.1	0.9	3.7	1.3	8.5	7.5	5.7	6.3	3.9	4.5
Nominal Household Consumption	4.6	4.1	4.2	4.4	4.4	4.1	4.0	3.5	4.0	3.6	3.7
Home Resales	3.9	9.6	9.6	-2.9	6.9	-5.8	-2.0	2.0	0.9	3.8	2.7

Source: Ontario Budget 2016 and Ontario Ministry of Finance.

Slower income growth reduces Personal and Corporate Income Tax revenue outlook

Stronger housing market boosts Land Transfer Tax revenue outlook

2016 FES Program Expense Outlook

($ Millions)	2016-17	2017-18	2018-19
2016 Budget Program Expense	**122,139**	**124,163**	**127,590**
MCYS/MOHLTC: First Nations Health Action Plan	40	–	–
MCYS: Autism Reform	91	–	–
EDU: School Renewal Funding	38	–	–
MNRF: Emergency Forest Firefighting	65	–	–
MAA/MNRF: Chapleau Cree Stage 2B	0	–	–
MAA: Priority Initiatives for Indigenous Communities	2	–	–
MCSS: Child Support Payments Exemption	3	–	–
OMAFRA: Ontario Corn Fed Beef Market Development Strategy	3	–	–
MMAH: National Disaster Mitigation Program (federal flow-through)	1	–	–
CO: Anti-Racism Directorate – Request for Additional Resource	3	–	–
CO: International Disaster Relief Program - Ecuador	1	–	–
CO: Disaster Relief Funding – Fort McMurray Wildfire	1	–	–
MCSS: Provincial Anti Human Trafficking Coordination Office	1	–	–
MOF: ORPP AC Wind-Up	20	–	–
Total In-Year Approvals	**269**	–	–
Other Program Expense Changes			
MOHLTC: Hospital Pressures Funding	140	–	–
Various: Green Investment Fund	325	–	–
ENE: Electricity Mitigation	300	946	944
EDU: Child Care Expansion	–	–	–
MMAH: Investment in Affordable Housing	140	–	–
MAESD: Post-Secondary Education Strategic Investment Fund	198	264	66
MEDEI: Clean Water/Wastewater Fund	85	342	142
Contingency Fund	(268)	(281)	–
Total Program Expense Changes	**1,189**	**1,270**	**1,153**
2016 FES Program Expense FES Outlook	**123,329**	**125,433**	**128,742**

2016-17: Total In-Year Approvals of $269 million

Total expense approvals associated with federal infrastructure agreements

Considerations Related to Addressing Pension Impact in FES

- Building in the full or a partial potential impact of the pension asset accounting change into the FES outlook **will require taking on additional tools** to help mitigate the impact on the government's fiscal targets. The greater the estimated impact built into the outlook, the more **aggressive the approach** to tools will be required.
- The government's expert panel is expected to provide its advice by December. As such, **there is another opportunity to revisit, assess and further address the potential fiscal impact** through the 2017 Document process.
- However, between the 2017 Document and finalizing 2016-17 actual results, the Auditor General will provide her opinion on the treatment of pensions for the 2016-17 Public Accounts.
- The government would also need to consider whether to **carry forward the net debt impact** of the accounting change as part of the medium-term forecast for net debt-to-GDP in the FES.

Revenue Considerations	Expense Considerations
▪ Timing is a challenge to implementing new revenue tools with a 2016-17 impact. ▪ It is anticipated that **the Financial Accountability Office (FAO) may report a more cautious revenue forecast** based on the latest economic information. This would be in further contrast to a FES outlook with additional tools. ▪ Any new revenue **assumptions would need to be clearly articulated and explained** to ensure credibility with external observers and forecasters. ▪ There is a risk that **new revenue assumptions may not materialize** (similar to unconditional federal funding in 2016 Budget). ▪ Additional revenue tools to accommodate pensions limits flexibility for addressing the remaining fiscal challenge for the 2017 Document.	▪ Timing likewise presents a challenge to implementing expense tools in 2016-17. ▪ **Key sectors** such as health and social services have **reported significant pressures** to managing within their existing program expense envelopes. ▪ **Further drawdowns of the contingency fund would limit** the government's **flexibility** for compensation and all other expense risks. ▪ Additional tools may need to be explored as part of the 2017 Document process to manage program expense risks reported by ministries that are not addressed in the current FES outlook. ▪ Taking on additional interest on debt savings could mean that there are no additional savings to use as a tool during 2017 Document planning.

Considerations Related to Pension Impact Amount to Take On

1. **Use the amounts set out in the 2016 Budget**
   - Those amounts are consistent with the professional accounting staff's current interpretation of PSAS
   - Refer to the use of a time-limited regulation in the Public Accounts and that impact in the narrative, along with the expert panel review that is to be completed by the end of December

2. **Use the amounts forecast by OPCD using the Auditor General's interpretation**
   - Using those amounts signals a cautious approach, the same basis upon which the 2015-16 Public Accounts were presented
   - The Auditor General's approach results in a reversal of the valuation allowance when an agreement is reached with the co-sponsor re: a reduction in contributions; it would be difficult to assume there will be an agreement without one currently in place
   - Additional fiscal impact assuming NIL asset value: 2016-17 – $2.2 billion; 2017-18 – $2.8 billion; 2018-19 – $3.7 billion

3. **Use a partial impact**
   - Could incorporate the historical average impact of the accounting change ($1.3 billion over last 10 years and $1.5 billion over last five years).
   - The further out the forecast the more uncertainty there is with the estimate. Estimates can change from forecast to actual based on economic/demographic factors, other new information, and potential changes to future agreements with plan sponsors.

Other Considerations: Presentation of Potential Fiscal Impact

In the options presented, the potential fiscal impact of the pension asset accounting change is included in projected program expense.

- Building the impact in program expense would help to smooth the program expense outlook across the 2015-16 actual result and the medium-term outlook.
- Alongside the use of tools, it would demonstrate that the government is still meeting its 2016 Budget targets.

Alternatively, the potential fiscal impact could be included as a below the line adjustment. This **would require showing a surplus/deficit above the line that takes into account sufficient fiscal effort** to accommodate the pension asset accounting change.

- While it would result in an inconsistent presentation of program expense between 2015-16 and the medium-term outlook, it would acknowledge that pension asset accounting change is an estimate and its impact in the out-years is still subject to change pending the ongoing independent review.

Presentation: Included in Program Expense

$ Billions	Actual 2015-16	Plan 2016-17	-Outlook- 2017-18	2018-19
Revenue	128.4	132.5	139.3	143.5
Expense				
Programs	122.4	124.6	126.6	129.9
Interest on Debt	11.0	11.5	11.7	12.4
Total Expense	**133.4**	**136.1**	**138.3**	**142.3**
Surplus/(Deficit) before Reserve	**(5.0)**	**(3.6)**	**1.0**	**1.1**
Reserve	-	0.5	1.0	1.1
Surplus/(Deficit)	**(5.0)**	**(4.1)**	**0.0**	**0.0**

Presentation: Included Below the Line

$ Billions	Actual 2015-16	Plan 2016-17	-Outlook- 2017-18	2018-19
Revenue	128.4	132.5	139.3	143.5
Expense				
Programs	122.4	123.1	125.1	128.4
Interest on Debt	11.0	11.5	11.7	12.4
Total Expense	**133.4**	**134.6**	**136.8**	**140.8**
Surplus/(Deficit) before Reserve	**(5.0)**	**(2.1)**	**2.4**	**2.6**
Reserve	-	0.5	1.0	1.1
Surplus/(Deficit)	**(5.0)**	**(2.6)**	**1.5**	**1.5**
Pension Asset Adjustments	**-**	**(1.5)**	**(1.5)**	**(1.5)**
Resulting Surplus/(Deficit)	**(5.0)**	**(4.1)**	**0.0**	**0.0**

Details of Selection of Potential Revenue Levers

The following measures may be combined, but impacts are not necessarily additive.

$ Billions	2016-17	2017-18	2018-19	Option 2	Option 3
More Aggressive Forecast Assumptions					
Economic Growth Forecast – Eliminate the 0.1 percentage point difference between the planning assumption and average private sector forecasts	0.1	0.2	0.3		
Corporate Income Tax Forecast – Assume stronger increases in the tax base arising from profit growth	0.1	0.4	0.6		✓
Harmonized Sales Tax Forecast – Assume higher revenues related to past year revenue pools	0.2	0.2	0.2	✓	✓
Harmonized Sales Tax Forecast – Assume recovery of 2015 HST shortfall (-$700M) already built into 2016-17 (related delayed HST on condo housing)	–	0.3	0.3	✓	✓
Reduce HST Housing-related shortfall in 2016-17	0.1	–	–	✓	✓
Government Business Enterprises – More aggressive forecasts of income arising from Ontario Lottery and Gaming and the Liquor Control Board	0.2	0.2	0.2	✓	✓
Recoveries of Prior Years' Expenditures	0.1	0.1	0.1	✓	✓
Total of More Aggressive Forecast Assumptions	**0.8**	**1.4**	**1.7**		
Assumptions Related to New Federal Funding					
Canada Health Transfer – Federal funding for the program increases by 6% after 2016-17	–	0.4	0.8		
Equalization – Federal government provides protection or offsets for declining revenues after 2016-17	–	0.6	0.5		✓
Infrastructure – Assume further future increases in federal funding	–	0.5	1.0	✓	✓
Total Assumptions Related to New Federal Funding (range based on either CHT or Equalization)	**–**	**0.9 to 1.1**	**1.5 to 1.8**		
Potential Selected New Revenue Measures (needs legislation)					
Personal Income Tax Simplification - Integrate the surtax into brackets and rates and suspend indexation in 2017	0.2	0.6	0.6		
Insurance Premium Tax Increase – Raise rates on all forms of insurance (except automobile insurance) by 1 percentage point	0.1	0.3	0.4		
Enhanced First-Time Home Buyers' Refund and Modernized Land Transfer Tax	–	0.1	0.1		
Total Potential Selected New Revenue Measures	**0.3**	**1.0**	**1.1**		
Maximum Flexibility Afforded by Potential Revenue Levers	**1.1**	**3.3 to 3.5**	**4.3 to 4.6**		

Key Considerations for New Tax Measures

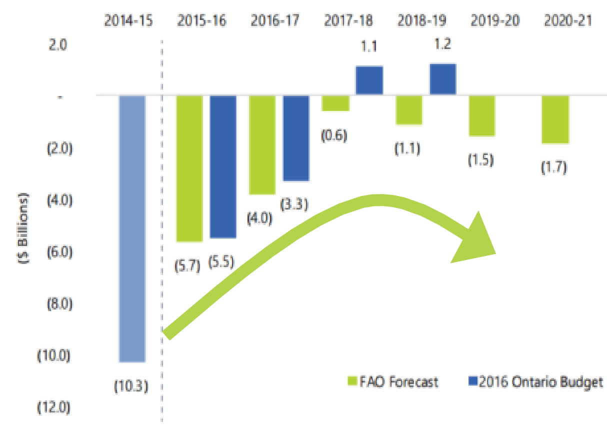
Measure	Key Considerations (all items would require legislation)
Personal Income Tax Simplification - Integrate the surtax into brackets and rates and suspend indexation in 2017	• To raise additional revenue from PIT simplification, all brackets and non-refundable tax credit amounts would be frozen (the top two PIT brackets at $150,000 and $220,000 are currently not indexed). • 6.2 million people would pay $100 more on average, and 0.3 million people would pay $40 less. o Additional revenue raised by suspending indexation in 2017. • The revenue impact would compound if indexation were suspended in subsequent years. • The federal government limited indexation to inflation over 3% from 1986 to 2000 to control national debt. From 1992 to 2000, there was effectively no indexation, as indexation factors were less than 3%.
Increase IPT Rates (1 Percentage Point) Increase IPT rates on all forms of insurance (except automobile insurance) by 1 percentage point.	• Based on all types of insurance, IPT revenue is approximately $1.2 billion annually (or 10% of corporate income tax revenue) and is paid by about 1,200 companies. • Automobile insurance has been excluded from this option to conform to Ontario's commitment to lower the cost of auto insurance for Ontario's nearly ten million drivers. • Increased cost of the IPT to insurance companies would likely be passed on to consumers. • The potential impact of this option on the Ontario insurance industry is uncertain since the impact on specific insurance companies would be based on several factors such as the location of operations, corporate structure and type of insurance products offered. o In general, IPT revenue is estimated to change from approximately $1.2 billion to $1.5 billion annually. • Ontario's insurance companies operating in the U.S may be subject to increased U.S. retaliatory taxes if Ontario's IPT rates exceed those of the respective U.S. state

Enhanced First-Time Home Buyers' Refund and Modernized Land Transfer Tax	• To allow first-time home buyers easier access to the housing market, the maximum First-Time Home Buyers' Refund could be doubled from $2,000 to $4,000.
	    o The First-Time Home Buyers' Refund would be limited to Canadian Citizens and Permanent Residents.
	• A new LTT rate structure would provide relief at the low end by increasing the range upon which the 0.5% applies (from $55,000 to $100,000) and applying a new rate of 3% for properties over $1,500,000
	• Purchasers of homes for $1,522,500 or less would pay up to $225 less LTT under the new rate structure.
	    o In 2015, 97.5% of single family residence transactions were $1,522,500 or less in the GTHA.
	• 85% of the revenue ($160 million in 2017-18) would come from transfers of non-residential property (e.g., commercial property). Only an estimated 15% ($30 million in 2017-18) would come from transfers of single family residences.
	• An estimated 74% of the additional LTT revenue would come from transfers in the GTA (including the City of Toronto); 26% would come from transfers in the rest of the province.

Financial Stakeholders

- It is expected that the **FAO will release a fall Economic and Fiscal Outlook for Ontario** with projections over the medium-term.
  - The **FAO outlook in the spring stated that balance in 2017-18 is achievable**, but also **projected budget deficits in all years between 2015-16 and 2020-21**, which is a deterioration from the 2016 Budget plan.
  - The FAO is likely to update its spring outlook by taking into account:
    - An estimated fiscal impact of the change in pension asset accounting for out-years
    - An estimate of the expense impact of the initiatives announced in the Speech from the Throne (e.g., Child Care Expansion, Electricity Price Mitigation), and
    - A more cautious revenue outlook, consistent with its spring report.

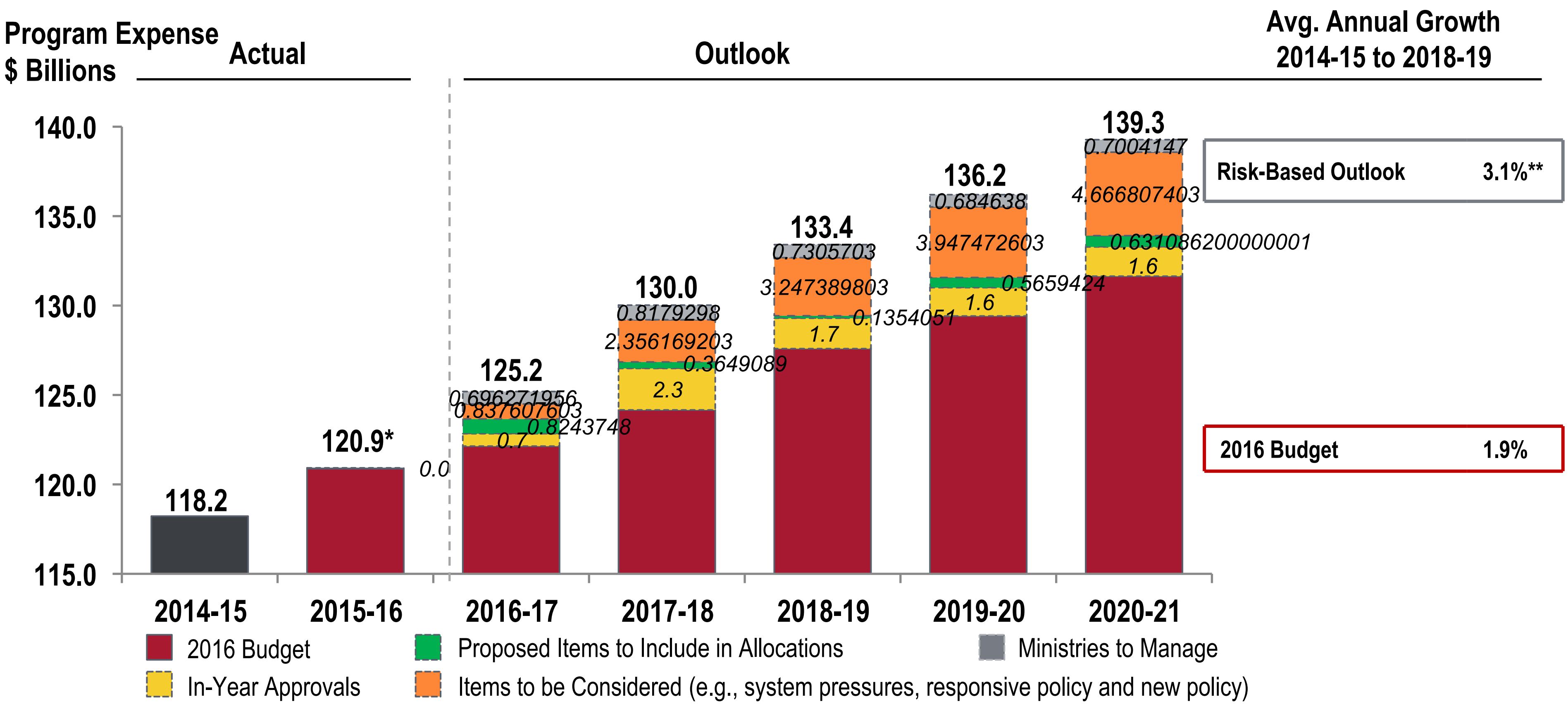
FAO Spring Forecast Trajectory



- To date, credit rating agencies have not expressed concern about the change in pension asset accounting for 2015-16, but **could question the government's ability to balance in 2017-18 if the government takes on the potential impact in future years as part of the FES outlook**.

September 2016 Program Expense Outlook

- The September 2016 fiscal update presented to Cabinet included program expense risks of $3.1 billion in 2016-17 growing to $7.6 billion in 2020-21



*Preliminary actual results, pending final confirmation.
** Risk-based outlook if “ministries to manage” risks are managed = 2.9%

Current Program Expense Outlook

- The FES will report higher program expense – mainly as a result of Electricity Price mitigation. These program expense increases will be offset by higher revenue and lower interest on debt costs, and will therefore not negatively impact the fiscal outlook.
- It is important to note that there remain additional items – both within the preliminary allocations along with items to be considered – that are not currently accommodated within the fiscal plan.