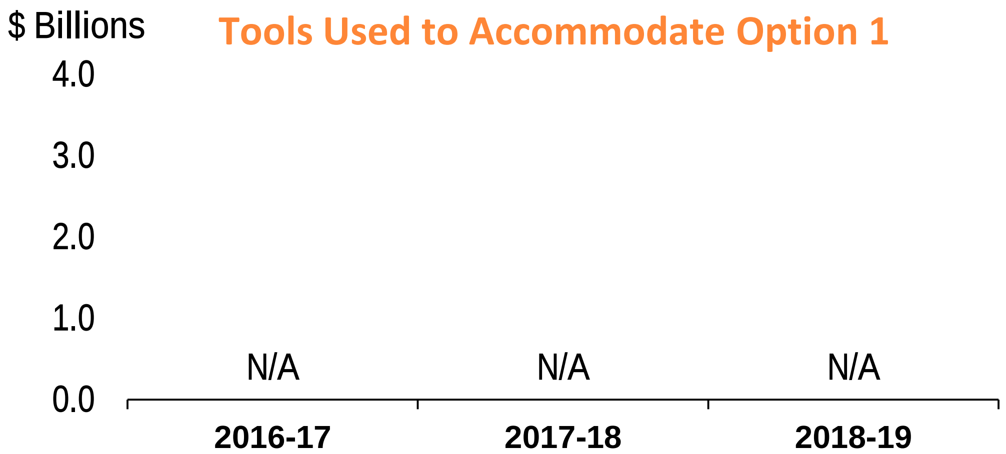
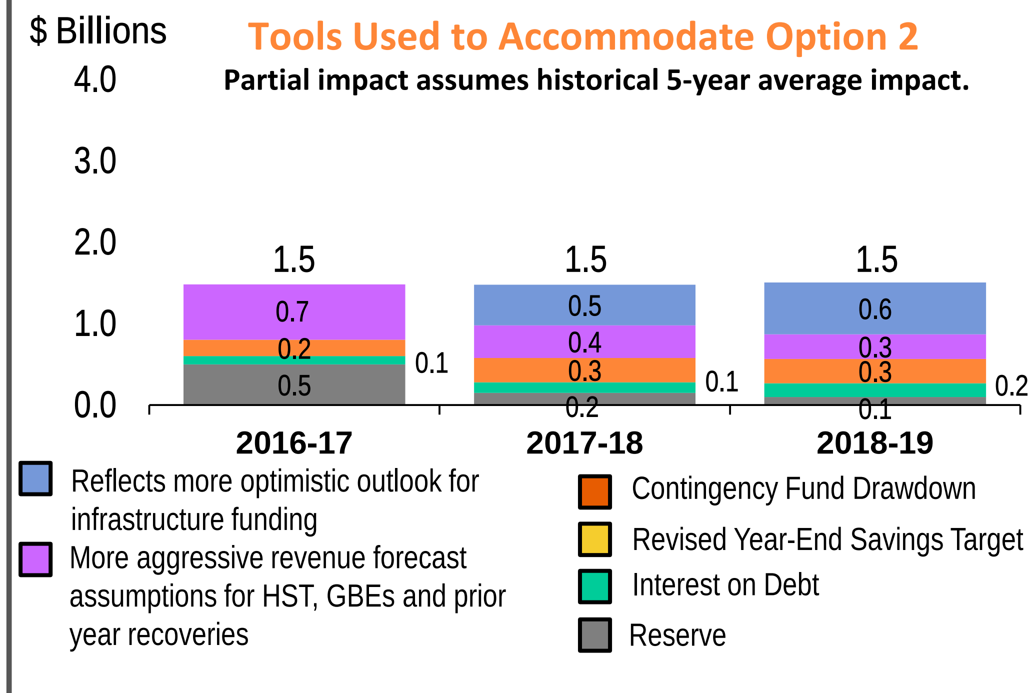
OPTION 1
Narrative Explanation of Potential Impact



Option 1 Tools

$ Millions	2016-17	2017-18	2018-19
Tools to Achieve FES Outlook			
Increase Federal Transfers (Equalization)	-	-	360
Contingency Fund	-	281	-
Interest on Debt	155	626	539
Total Tools to Achieve FES Outlook	155	908	900
Reserve	-	-	-
Total Option 1 Tools	155	908	900

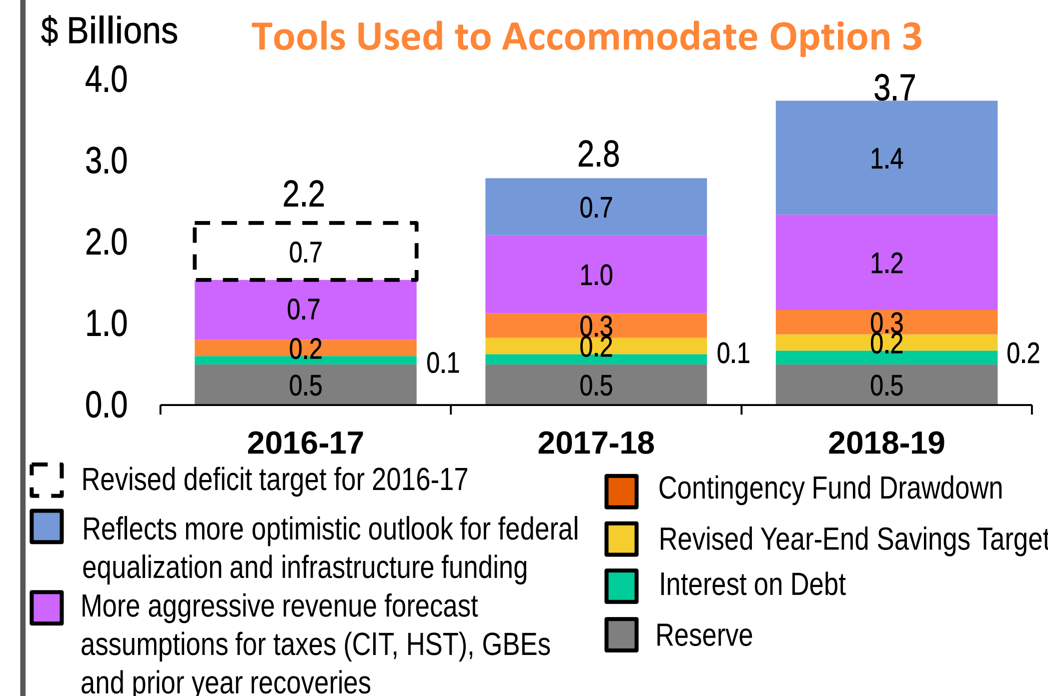
OPTION 2
Tools to Accommodate a Partial Impact



Option 2 Tools

$ Millions	2016-17	2017-18	2018-19
Tools to Achieve FES Outlook			
Increase Federal Transfers (Equalization)	-	-	360
Contingency Fund	-	281	-
Interest on Debt	155	626	539
Total Tools to Achieve FES Outlook	155	908	900
Tools to Accommodate Partial Impact			
Revenue Tools			
Government Business Enterprises	200	200	200
Recoveries	100	100	100
HST	380	100	
Federal Transfers	-	500	1,000
Reverse Increase Federal Transfers (Equalization)	-	-	(360)
Total Revenue Tools	680	900	940
Expense Tools			
Contingency Fund	200	300	300
Year-End Savings Target	-	-	-
Interest on Debt	101	130	168
Total Expense Tools	301	430	468
Deficit Forecast Adjustment	-	-	-
Reserve	500	150	100
Total Tools to Accommodate Partial Impact	1,481	1,480	1,507
Total Option 2 Tools	1,636	2,388	2,407

OPTION 3
Tools to Accommodate the Full Impact



Option 3 Tools

$ Millions	2016-17	2017-18	2018-19
Tools to Achieve FES Outlook			
Increase Federal Transfers (Equalization)	-	-	360
Contingency Fund	-	281	-
Interest on Debt	155	626	539
Total Tools to Achieve FES Outlook	155	908	900
Tools to Accommodate Full Impact			
Revenue Tools			
Government Business Enterprises	200	200	200
Recoveries	100	100	100
Federal Transfers	-	700	1,400
CIT	135	360	570
HST	300	300	300
Total Revenue Tools	735	1,660	2,570
Expense Tools			
Contingency Fund	200	300	300
Year-End Savings Target	-	200	200
Interest on Debt	101	127	168
Total Expense Tools	301	627	668
Deficit Forecast Adjustment	704	-	-
Reserve	500	500	500
Total Tools to Accommodate Full Impact	2,240	2,787	3,738
Total Option 3 Tools	2,395	3,694	4,637

OPTION 1
Narrative Explanation of Potential Impact

$ Billions	Actual 2015-16	Plan 2016-17	Outlook 2017-18	Outlook 2018-19
Revenue	128.4	131.8	138.4	142.5
Expense				
Programs	122.4	123.3	125.4	128.7
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.9	137.3	141.3
Surplus/(Deficit) Before Reserve	(5.0)	(3.1)	1.1	1.2
Reserve	–	1.0	1.1	1.2
Surplus/(Deficit)	(5.0)	(4.1)	0.0	0.0
Estimate of Potential Net Impact of Pension Assets Change on Medium-Term Fiscal Outlook	–	(2.2)	(2.8)	(3.7)

The Province is currently undertaking an independent review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans. Based on the legislated accounting treatment for pension assets for the 2015-16 Public Accounts, the government's projected deficit could be higher by $2.2 billion in 2016-17, $2.8 billion in 2017-18 and $3.7 billion in 2018-19. These are preliminary estimates and are subject to change. The government will report on how these changes affect Ontario's fiscal outlook in the 2017 Document.

Narrative Challenges and Risks

- If the change in pension asset accounting is not accommodated in the FES fiscal outlook, the public and financial stakeholders could raise questions about the government's ability to achieve its 2016 Budget targets and balance the budget.
- Would require a strong rationale for not taking on the potential change in pension asset accounting, given that the government reported the change for 2015-16 in the recent Public Accounts.

OPTION 2
Tools to Accommodate a Partial Impact

$ Billions	Actual 2015-16	Plan 2016-17	Outlook 2017-18	Outlook 2018-19
Revenue	128.4	132.5	139.3	143.5
Expense				
Programs	122.4	123.2	125.0	126.3
Pensions Adjustment	–	1.5	1.5	1.5
Contingency Fund	–	0.7	1.1	3.2
Year-End Savings Target	–	(0.8)	(1.0)	(1.0)
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

Partial impact assumes historical 5-year average impact.

*As a result of the government's legislated accounting treatment of pension assets in the 2015-16 Public Accounts and to reflect the fact that the future fiscal impact of pension expense on the Province's finances is subject to variety of factors – including economic/demographics, new information, and potential changes to future agreements with plan sponsors – the government has included **the five-year historical average impact of the potential accounting change, or $1.5 billion a year**, into the medium-term fiscal outlook. In addition, the government has established an independent panel to review the application of PSAB's pension accounting standard, which is expected to report back with recommendations by the end of 2016.*

Narrative Challenges and Risks

- Could raise questions about what the total estimated impact of the pension accounting change is and would require a defensible rationale for only taking on part of the potential fiscal impact.
- Could lead to questions about how the government would accommodate the full impact and remain on track to balance.
- May lead to assertions that revenue forecast has been artificially increased to accommodate the change in the pension asset accounting, given recent forecasts for less optimistic economic growth for Ontario.
- May require a credible response to the assumptions for federal revenue given the recent multilateral federal-provincial negotiations.
- Could raise questions about the use of the reserve and reduction in prudence.

OPTION 3
Tools to Accommodate the Full Impact

$ Billions	Actual 2015-16	Plan 2016-17	Outlook 2017-18	Outlook 2018-19
Revenue	128.4	132.6	140.0	145.1
Expense				
Programs	122.4	123.2	125.0	126.3
Pensions Adjustment	–	2.2	2.8	3.7
Contingency Fund	–	0.7	1.1	3.2
Year-End Savings Target	–	(0.8)	(1.2)	(1.2)
Interest on Debt	11.0	11.5	11.7	12.4
Total Expense	133.4	136.9	139.4	144.4
Surplus/(Deficit) before Reserve	(5.0)	(4.3)	0.6	0.7
Reserve	–	0.5	0.6	0.7
Surplus/(Deficit)	(5.0)	(4.8)	0.0	0.0

The government's revenue and expense outlooks project that it is on track to meet its deficit target of $4.3 billion in 2016-17 – however, in recognition of potential risks that could impact the fiscal plan, the current year will continue to include a reserve, which if needed, would increase the deficit to $4.8 billion. The government remains committed to a balanced budget in 2017-18 and 2018-19.

Narrative Challenges and Risks

- Difficult to claim that the government is still on track to balance the budget when the 2016-17 deficit, with a reserve, has deteriorated by $0.5 billion.
- Could lead to questions about whether new investments will be made from the fiscal room created if the advice from the panel results in a different accounting treatment outcome.
- May lead to assertions that revenue forecast has been artificially increased to accommodate the change in the pension asset accounting, given forecasts for less optimistic economic growth for Ontario.
- Would require a credible response to the forecast for federal revenue given the recent multilateral federal-provincial negotiations.
- Could lead to questions on how the reserve is being used and whether there is enough prudence in the fiscal plan should there be additional pressures that have not already been accounted for and given the contingency fund has also been drawn down.