2015–16 Annual Report
Technical Questions & Answers

DEBT

Q. Why did net debt increase by $20.6 billion, from $284.6 billion as at March 31, 2015 to $305.2 billion as at March 31, 2016?

A. Net debt is the province's total debt and other liabilities, less its financial assets, including cash and investments. The increase of $20.6 billion in net debt is primarily due to a $10.7 billion increase as a result of the 2015-16 legislated change in the Province's accounting for pension plans, the non-pension deficit and investments in capital assets.

Q Why did net debt to GDP increase from 39.4 percent as at March 31, 2015 to 40.9 percent as at March 31, 2016?

A. The increase in net debt to GDP is mainly due to the legislated change in the Province's accounting for pension plans. If not for this change the increase in the ratio would have remained unchanged. The government continues to be committed towards eliminating the deficit by 2017-18 and then reducing the net debt to GDP ratio to the pre-recession level of 27 per cent.

Q. How do you explain the $12.4 billion increase in total debt from $315.0 billion at March 31, 2015 to $327.4 billion at March 31, 2016?

A. The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16 plus pre-borrowing of $2 billion.

Q. Why has total debt gone up by $12.4 billion while the accumulated deficit has gone up by $15.2 billion?

A. Total debt represents all borrowing that is used to fund the deficit, as well as to invest in capital assets and cash reserves. Accumulated deficit is the sum of all deficits less surpluses since Confederation. Total debt increased by $12.4 billion in order to fund the deficit as well as the Province's investments in capital assets plus pre-borrowing of $2 billion.

Q. What is the difference between total debt and net debt?

A. Total debt represents all borrowings without taking into consideration other liabilities and financial assets. Net debt is the province's total debt and other liabilities, less its financial assets. Net debt is the measurement of debt most commonly used by rating agencies and investors in the Province's bonds.

Q. Why has net debt increased by $9.1 billion from the interim estimate in the 2016 Budget, while total debt has increased by $2.1 billion from the interim estimate?

A. Net debt is the Province's total debt and other liabilities, less its financial assets. Net debt increased by $9.1 billion from the interim estimate primarily due to a $10.7

billion increase as a result of the 2015-16 legislated change in the Province's accounting for pension plans which was not included in the interim forecast; and partially offset by the $0.7 billion decrease in the deficit.

Total debt is all of the Province's borrowings. The total amount borrowed has increased by $2.1 billion from the interim estimate primarily due to the $2.0 billion in pre-borrowings in March 2016 for 2016-17.

Q. How will the 2015-16 Annual Report affect the borrowing requirement for 2016-17?

A. As in past years, any changes in the borrowing requirement arising from Annual Report will be determined as part of the Economic Outlook and Fiscal Review.

Q. How much debt was issued in 2015-16, and how much debt matured during the year under the Province's borrowing program?

A. The Province issued $32.1 billion in long-term public borrowing in 2015-16. Long-term debt maturities were $21.1 billion and Ontario Saving Bond redemptions were less than $0.1 billion.

RISK MANAGEMENT

Q. What is your current policy on foreign currency exposure?

A. The Province limits itself to a maximum foreign exchange exposure of 5 per cent of Debt Issued for Provincial Purposes. The foreign currency exposure as at March 31, 2016 was 0.3 per cent.

Q. What is your current policy on controlling interest rate exposure?

A. The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of Debt Issued for Provincial Purposes. The interest rate exposure as at March 31, 2016 was 11.0 per cent.

INTEREST OF DEBT (IOD)

Q. Why is the Actual IOD for 2015-16 of $10,967 million lower by $443 million than the 2015 Budget forecast of $11,410 million?

A. IOD is $443 million lower than the forecast in the 2015 Budget primarily because of lower than forecast interest rates projected in the 2015 Budget and cost-effective debt management.

Q. Why is IOD for 2015-16 of $10,967 million higher by $332 million than IOD for 2014-15 of $10,635 million?

A. IOD is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

DEBT MANAGEMENT

Q. You talk about balancing the budget, but Ontario's debt continues to grow.

How is the government paying down the debt?

A. Investors and rating agencies are focused on relative debt measures such as the net debt-to-GDP. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Q. The Auditor General has recommended that the government work toward implementing a long-term debt reduction plan with the target of reducing its net-debt-to-GDP ratio to pre-recession levels of 27%. This year the ratio has risen again. What is the government doing to lower this ratio?

A: The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Q. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

A: There is a strong demand for Ontario bonds. Such investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates.

The 2010 Budget forecasted that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s, and is forecast to remain lower through the outlook period in 2018–19.

Q. What if interest rates go up? What affect would higher interest rates have on debt?

A: As indicated in Note 3 of the unaudited consolidated financial statements in annual report, a one per cent increase in interest rates would result in an increase in interest on debt of approximately $350 million.

Q. What's the difference between net debt and accumulated deficit?

A: Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Did you use your reserve fund to pay your fiscal results and pay down the debt?

A The Reserve is an amount included in the fiscal plan to protect the plan against unforeseen adverse changes in the economic outlook as reflected through impacts to Provincial revenue and expenses, not typically balance sheet items like Public Debt.

Actual costs incurred by the government which pertain to the Reserve are recorded as expenses. Any portion of the reserve that remains unutilized at the end of the fiscal year is used to reduce the deficit.

Q. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing. Over the three years 2016-17 to 2018-19, average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

REVENUE

2015-16 Actual Vs. 2015 Budget Plan

Q: Why are revenues $4.0 billion higher than your 2015 Budget projection?

A: The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues. Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

Q: What accounts for the $4.4 billion increase in Taxation revenues from your 2015 Budget projection?

A: The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues. Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

Q: What accounts for the $0.1 billion increase in net income of Government Business Enterprises?

A: This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG). Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Q: What accounts for the $0.5 billion decrease in Other Non-Tax Revenues?

A: Other Non-tax revenue (NTR) comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the budget forecast.

The overall decline of $0.5 billion in Other Non-Tax revenue largely reflects a reclassification some of the revenue impacts associated with 2015-16 Hydro One ownership broadening from Sales and Rentals, where they were reported on a net basis in the *2015 Budge*t, to the other affected revenue lines such as Hydro One net income and Electricity Payments-in-lieu of taxes. This reclassification took place once the 2015-16 Hydro One ownership broadening was completed.

The decline in sales and rentals revenue is partially offset by higher revenue from other NTR sources including Power Supply Contract Recoveries and miscellaneous revenue sources such as Recoveries of prior-year expenditures

Q What accounts for the $313million increase in Ontario Lottery and Gaming Corporation (OLG) net profit the province compared to Budget 2015 projection?

A Higher net income from OLG mainly reflects a record year for Lottery revenue as a result of the number of high valued jackpots and the associated high sales per jackpot for both Lotto 6/49 and LottoMax.

Resort casinos also exceeded targets primarily due to a low Canadian dollar and a mild winter. Revenues from OLG slots and casinos were also slightly higher primarily due to a new marketing strategy.

Q What accounts for the $77 million increase of net income from Liquor Control Board of Ontario (LCBO) compared to Budget 2015 projection?

A This increase mainly reflects higher sales revenue resulted from LCBO's continued focus on customer service, and increased consumer confidence.

Continued expense control and lower than expected employee benefit costs, plus the one-time payments associated with the Beer in Grocery Store program also contributed to the positive financial results.

2015-16 Actual Vs. 2014-15 Actual

Q: What accounts for the $9.8 billion year-over-year increase in revenues?

A: The increase in revenues was mostly due to higher taxation revenues of $6.7 billion due to economic growth and $2.8 billion higher Electricity Payment in Lieu of taxes as a result of Hydro One IPO, a strong 2015 housing and one-time prior-year adjustments which lowered 2014-14 revenues and boosted 2015-16 revenues. Higher federal transfers, mainly due to growth in Canada Health Transfers, Canada Social Transfers and Equalizations was partially offset by lower income from government business enterprises and lower Other Non-tax revenue.

Q: What accounts for the $9.5 billion year-over-year increase in taxation revenues?

A: In 2015-16, taxation revenues increased by $9.5 billion or, 11.6 per cent, from 2014-15.

- Growth in the economy in 2015 lead to higher taxation revenues. (3.5 per cent nominal GDP growth in 2015).
- A strong Ontario housing market during 2015, also boosted both Sales Taxes and Land Transfer Tax revenues
- Significant one-time prior year adjustments lowered Corporations Tax revenues in 2014-15 and boosted Harmonized sales Tax revenues in 2015-16, also contributing to strong year-over-year growth to one-time
- Higher Electricity Payments-In-Lieu of taxes (PILs) related to the broadening of Hydro One ownership taxation revenues 2015-16.

Q: What accounts for the $1.2 billion increase in federal transfers?

A: Higher transfers in 2015-16 from federal government mainly reflect higher transfers from existing major federal funding programs such as Canada Health Transfer, Canada Social Transfer, and Equalization programs. Transfers under these programs are based on existing federal-provincial funding arrangements and funding formulas.

Q: What accounts for the $0.7 billion decrease in net Income from Government Business Enterprises?

A: This decline manly reflects lower net income from Ontario Power Generation (OPG) and Hydro One (HOI), partially offset by higher net income from Ontario Lottery and Gaming Corporation (OLG) and Liquor Control Board of Ontario (LCBO).

The decrease in OPG's net income in 2015-16 is primarily due to extraordinarily high net income in 2014-15 because of a one-time gain related to the newly regulated hydroelectric facilities and higher market prices received by OPG for its previously unregulated hydroelectric facilities in 2014. Lower nuclear production and higher operating costs in 2015 are also contributing factors to lower OPG net income.

Lower income from Hydro One Primarily reflect the impacts of the Hydro One ownership broadening completed in 2015, which includes the one-time $2.6B departure tax and about $200M in additional PILs expenses, partly offset by the Province's portion of the Hydro One net income impact from the deferred tax benefit.

Q: What accounts for the $0.2 billion decrease in Other Non-Tax Revenues?

A: Other non-tax revenue comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the budget forecast.

The overall decline of $0.2 billion in other NTR largely reflects higher net sales and rentals revenue in 2014-15 from the Asset Optimization strategy as different assets sold in 2014-15 and 2015-16. The 2014-15 figure reflect the net gain obtained from sale of the Province's GM shares (+$1.1B). The 2015-16 figure reflect the net gain on sale associated with broadening Hydro One ownership (+$0.9B).

Q What accounts for the $238 million increase in Ontario Lottery and Gaming Corporation (OLG) net profit the province compared to 2014-15?

A This increase was mostly attributable to a record year for Lottery revenue as a result of the number of high valued jackpots and the associated high sales per jackpot for both Lotto 6/49 and LottoMax.

Resort casinos also exceeded targets primarily due to a low Canadian dollar and a mild winter. Revenues from OLG slots and casinos were also slightly higher primarily due to a new marketing strategy.

Q What accounts for the $126 million increase in Liquor Control Board of Ontario (LCBO) net income compared to 2014-15?

A This increase mainly reflects LCBO's continued focus on customer service, and increased consumer confidence which resulted in higher sales.

Continued expense control and lower than expected employee benefit costs, plus the one-time payments associated with the Beer in Grocery Store program also contributed to the positive financial results.

2015-16 Actual Vs. 2016 Budget Interim

Q: Why did Taxation revenues increase by $1.1 billion above your Interim estimate?

A: Most of the increase in Taxation revenues since the 2016 Budget is due to higher Personal Income Tax (+$0.9B) as a result of stronger-than-expected 2015 tax assessments. Other taxes are $0.2 billion higher mainly due to higher Education Property Tax, Corporations Tax and Land Transfer Tax.

Q: What accounts for the $0.6 billion increase in net Income from Government Business Enterprises?

A: The increase was mostly attributable to higher net incomes from Hydro One Ltd. and Ontario Lottery and Gaming Corporation (OLG).

- The increase in revenues from Hydro One mainly reflects the final determination of Hydro One's deferred tax benefit related to the 2015-16 broadening of ownership.

- OLG's net income increase was due to continued stronger-than-expected revenue from lottery business towards the end of the year and higher revenues from casinos.

Q: What accounts for the $0.2 billion increase in Other Non-Tax revenues?

A: Higher revenues from other Non-Tax revenue sources largely reflect higher recoveries of prior-year-expenditures from various government ministries and higher Power Supply Contract Recoveries. The latter is fiscally-neutral being offset by higher Power Supply Contract Costs.

EXPENSES BY SECTOR

HEALTH

Summary of 2015-16 Budget to Actual Variance Analysis

Q. Why is the Health Sector Expense in 2015-16 higher by $294 million than in the Budget Plan?

A. Health sector expense was $294 million, or about 0.6 per cent, above plan. Higher spending resulted from increased drug costs as well as higher hospital sector expense, which was partially offset by underspending in agencies.

Summary of Five Year Expense Actual Variance Analysis

Q. Why is the Health Sector Expense $4.6 billion higher in 2015-16 than 2011-12?

A. Health sector expense increased from $46.5 billion in 2011–12 to $51.1 billion in 2015–16, or on average by 2.4 per cent per year between 2011–12 and 2015–16. These increases are due in part to increasing demands for health care services from an aging and growing population, along with other factors.

Increases also include new investments in home and community care as well as specialized services such as cancer care. Expense increases in the health sector have been moderated by ongoing transformation of the sector to focus on patients while reducing costs such as the prices of generic prescription drugs.

EDUCATION

Summary of 2015-16 Budget to Actual Variance Analysis

Q. Why is the Education sector expense in 2015-16 lower by $233 million than in the Budget Plan?

A. Education sector expense was $233 million lower than expected, due in part to a higher share of funding spent on capital projects that are capitalized and amortized instead of expensed, higher-than-forecasted revenues from education-development charges and slightly lower-than-projected enrolment.

Q. Why is the Post-secondary and training sector expense in 2015-16 lower by $176 million than in the Budget Plan?

A. Post-secondary and training sector expense was $176 million lower than expected, mainly due to lower spending on post-secondary operating grants and lower student financial assistance as a result of lower-than-forecast enrolment. As well, spending on employment and training programs was below plan, partially offset by higher expense on tax credits to employers to support training.

Summary of Five Year Expense Actual Variance Analysis

Q. Why is Education Sector Expense $2.1 billion higher in 2015-16 than in 2011-12?

A. Education sector expense increased from $22.9 billion in 2011–12 to $25.0 billion in 2015–16, or on average by 2.2 per cent per year between 2011–12 and 2015–16. The increase is mainly due to the introduction of full-day kindergarten, which has been made available to every four- and five-year-old in Ontario since September 2014. Expense was lower in 2012–13 due to the impact of $1.3 billion in one-time savings from reducing liabilities carried by school boards for sick-day banking and retirement gratuities.

Q. Why have expenses increased in the Postsecondary and Training Sector by $373 million from 2011-12 to 2015-16?

A. Post-secondary education and training sector expense increased from $7.3 billion in 2011–12 to $7.6 billion in 2015–16, or on average by 1.3 per cent per year between 2011–12 and 2015–16. The increase is mainly due to continued funding to support enrolment growth in post-secondary institutions, growth in student financial assistance programs and support for employment and training programs.

CHILDREN'S & SOCIAL SERVICES

Summary of 2015-16 Budget to Actual Variance Analysis

Q. Why is the Children's and social services sector expense in 2015-16 higher by $124 million than in the Budget Plan?

A. Children's and social services sector expense was $124 million higher than planned, due mainly to additional spending to address demand for the Ontario Disability Support Program and the cost of prescription drugs for social assistance recipients.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did the Children's and Social Services sector actual expense grow by $2.0 billion from 2011-12 to 2015-16?

A. Children's and social services sector expense increased from $13.5 billion in 2011–12 to $15.5 billion in 2015–16, or on average by 3.5 per cent per year between 2011–12 and 2015–16. This increase reflects caseload growth in the Ontario Disability Support Program and investments in developmental services and the Ontario Child Benefit.

JUSTICE

Summary of 2015-16 Budget to Actual Variance Analysis

Q. Why is the Justice sector expense in 2015-16 higher by $120 million than in the Budget Plan?

A. Justice sector expense was $120 million higher, mainly due to settlements under the *Proceedings Against the Crown Act* and higher-than-expected bad debt provisions related to unpaid fines.

Summary of Five Year Expense Actual Variance Analysis

Q. Why has Justice Sector Expense increased by $679 million from 2011-12 to 2015-16?

A. Justice sector expense increased from $3.9 billion in 2011–12 to $4.5 billion in 2015–16, or on average by 4.1 per cent per year between 2011–12 and 2015–16. These increases are mainly due to the provincial upload of court security costs from municipalities, costs for the security services for the 2015 Pan/Parapan American Games and improved access to legal aid for low-income Ontarians.

OTHER PROGRAMS

Summary of 2015-16 Budget to Actual Variance Analysis

Q. Why is Other programs expense in 2015-16 higher by $1.8 billion than in the Budget Plan?

A. Other programs expense was $1.8 billion higher than expected. The increase was mainly due to the change in accounting treatment for jointly sponsored pension plans, higher-than anticipated expense for the Ontario Production Services Tax Credit and costs related to the Hydro One IPO.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did the Other Programs Sector Actual Expense seem unchanged from 2011-12 to 2015-16?

- A. Other programs expense was $18.6 billion in 2015–16, including a $1.5B increase in pension expense due to the impact of an accounting adjustment related to pension assets. Prior to the adjustment, other programs expense for 2015-16 would have been $17.1 billion, contributing to an average decrease of 2.0 per cent per year between 2011–12 and 2015–16. The impact of the change in accounting for pensions is described in Note 18 to the unaudited Consolidated Financial Statements.

HOSPITALS

Year-over-year Comparisons – Actuals

Q. Why is the hospital sector surplus of $495 million in the 2015-16 Annual Report $547 million (or 52.5%) lower than the $1,042 million surplus reported in the 2014-15 Public Accounts?

A. The decrease of $547 million in the hospital consolidated surplus is due to $655 million higher hospital sector expense offset by $108 million higher funding from the Province.

The $655 million higher hospital sector expense is due to:

- $210 million increase in salaries and wages as a result of average salary increases, new staff hiring and costs associated with increased service pressures due to the opening of the new sites (examples include. Humber River Regional and Halton Healthcare);
- $216 million increase in operating expenses as a result of higher supply costs (general supplies, medical/surgical supplies, etc.) due to increased clinical volumes, higher average supply costs, higher drugs costs, higher research costs and some one-time expenses related to the opening of new hospital sites;
- $71 million increase in amortization expenses mainly due to more assets being placed in service;
- $94 million decrease in non-provincial revenues which represent revenues from donations and fees, such as parking revenue and others; and
- $64 million increase in interest and other expenses. The increase in interest expense is due to an increase in AFP obligations on completed projects.

The $108 million higher funding from the province is due to:

- $137 million increase in operating funding to support growth in increased demand for radiation, chemotherapy, cancer surgeries and specialized cancer service volumes funded through Cancer Care Ontario;
- $114 million increase in funding to cover annual service payments on completed capital projects;
- $23 million increase in operational funding to hospitals;
- $27 million increase in community mental health funding to hospitals and specialty psychiatric hospitals funding;

offset by,

- $193 million lower capital grants to hospitals due to less projects in construction reaching key milestones or substantial completion requiring payment this year compared to last year.

Q. Why is the hospital sector expense in the 2015-16 Annual Report of $22,641 million higher by $655 million (or 3%) than the $21,986 million sector expense reported in the 2014-15 Public Accounts?

A. The $655 million higher hospital sector expense is due to:

$210 million increase in salaries and wages as a result of average salary increases and hiring staff due to the opening of the new sites (e.g. Humber River Regional, Halton Healthcare), as well as increases in costs associated with service pressures;

$216 million increase in supplies as a result of higher supply costs (general supplies, med/surg supplies, etc.) due to increased clinical volume and higher average cost, higher drugs costs, higher research cost and some one-time expenses related to the opening of new hospital sites;

$71 million increase in amortization expenses mainly due to more assets being placed in service;

$94 million decrease in non-provincial revenue which represents revenues from donation, fees, such as parking revenue and others , and

$64 million increase in interest and other expense items.

Comparison of Actuals to Interim Estimates in the 2016 Budget

Q. Why is the hospital sector surplus of $495 million in the 2015-16 Annual Report $429 million (or 46%) lower than the $924 million surplus projected in the Interim Estimates in the 2016 Budget?

A. The $429 million decrease in hospital sector consolidated surplus is due to $370 million higher hospital sector expense and $59 million lower funding from the Province than projected in the Interim Estimates.

The $370 million higher than forecasted hospital sector expense is mainly driven by:

- $302 million higher staffing and supply costs as a result of higher than forecasted average salary increases and staffing levels, as well as higher than forecasted supply costs (general supplies, med/surg supplies, etc.) due to service pressures and increased clinical volumes and higher than forecasted drugs costs;
- $44 million higher amortization expenses mainly due to more assets placed in to service than forecasted, and
- $24 million higher interest and other expenses.

The $59 million lower funding from the province is mainly due to less projects in construction reaching key milestones or substantial completion requiring payments as expected.

Q. Why is the Province's hospital sector expense of $22,641 million in the 2015-16 Annual Report higher by $370 million (or 1.7%) than the $22,272 million hospital sector expense projected in the Interim Estimates in the 2016 Budget?

A. The $370 million higher than forecasted hospital sector expense is mainly driven by:

- $302 million higher staffing and supply costs as a result of higher than forecasted average salary increases and staffing levels, as well as higher than forecasted supply costs (general supplies, med/surg supplies, etc.) due to service pressures and increased clinical volumes and higher than forecasted drugs costs;
- $44 million higher amortization expenses mainly due to more assets placed in to service than forecasted, and
- $24 million higher interest and other expenses.

Comparison to 2015 Budget Forecasts

Q. Why is the hospital sector surplus of $495 million in the 2015-16 Annual Report $630 million (or 56%) lower than the $1,125 million surplus in the 2015 Budget?

A. The $630 million decrease in hospital sector consolidated surplus is due to $487 million higher hospital sector expense and $143 million lower funding from the Province than forecasted in the 2015 Budget.

The $487 million higher than forecasted hospital sector expense is due to:

- $94 million higher salaries and wages as a result of higher than forecasted average salary increases and new hirings due to costs associated with service pressures in the areas of ED, ICU and Medicine;
- $338 million higher supplies and other expenses as a result of higher than forecasted supply and drugs costs due to higher clinical volumes and research related expenses, and
- $55 million increase in amortization expenses mainly due to more assets being placed in to service than forecasted.

The $143 million lower than forecasted funding from the Province is due to:

- $324 million lower capital funding for projects in construction not reaching key milestones or substantial completion requiring payment as expected.

offset by,

- $181 million higher operating funding driven by higher than planned growth in the following programs, mainly Cancer Care Ontario (CCO) programs (such as GI endoscopy and systemic treatment), Ontario Drug Program and mental health programs.

Q. Why is the Province's hospital sector expense of $22,641 million in the 2015-16 Annual Report higher by $487 million (or 2.2%) than the $22,154 million Provincial hospital sector expense projected in the 2015 Budget?

A. The $487 million higher than forecasted hospital sector expense is due to:

- $94 million higher salaries and wages as a result of higher than forecasted average salary increases and new hirings due to costs associated with service pressures in the areas of ED, ICU and Medicine;
- $338 million higher supplies and other expenses as a result of higher than forecasted supply and drugs costs due to increased clinical volumes and research related expenses, and
- $55 million increase in amortization expenses mainly due to more assets being placed in to service than forecasted.

Other

Q. What was the total (surplus)/deficit reported by the hospital sector in their 2015-16 Audited Financial Statements?

A. The hospitals reported a surplus of $151 million in their 2015-16 Audited Financial Statements. This includes $21 million remedy from the Province under the working fund initiative. Per the Hospital Working Fund Accountability Agreement, funding under this initiative must flow to the bottom line of hospitals and has to be used for paying down existing short term debt. Excluding the impact of the working funds remedy, the hospital sector surplus would have been $130 million.

In 2015-16, of the 146 hospitals:

- 73 hospitals reported a total surplus of $273 million;
- 72 hospitals reported a total deficit of $122 million; and
- 1 hospital reported balance.

Also, 95 hospitals reported surplus or improved results on their bottom-line as outlined below:

- 24 hospitals increased their surplus from last year;
- 40 hospitals decreased their surplus from last year;
- 21 hospitals decreased their deficit from last year;

- 9 hospitals turned their deficit into a surplus this year;
- 1 hospital turned deficit to balance.

Q. What are the major differences between the $151 million surplus reported in the hospital sector Audited Financial Statements and the $495 million surplus reported in the 2015-16Annual Report?

A. The major differences between the $151 million reported surplus in the hospital sector Audited Financial Statements and the $495 million reported surplus in the 2015-16 Annual Report are consolidation adjustments made to align the reporting of the hospital sector with the accounting policies and practices of the Province.

One adjustment made to the hospitals' pre-consolidated surplus is related to provincial funding received and deferred by hospitals (not reported as income in the current period). Such deferred funding is adjusted to income in the post-consolidated hospital sector results. These adjustments had a $302 million surplus impact to the hospital sector results.

Also, adjustments are made with respect to accrual and timing differences to ensure that transactions between hospitals and other entities within the government reporting entity are accounted for consistently upon consolidation.

This adjustment had a $144 million (net) deficit impact on hospital sector results.

Pension adjustment related to the Healthcare of Ontario Pension Plan (HOOPP) and Waypoint is also made to the cash based expense reported by hospitals. The Treasury Board Secretariat receives actuarial estimates from HOOPP and records a pension expense and liability adjustment on behalf of the hospitals to comply with Public Sector Accounting Standards (PSAS), as HOOPP does not apportion this to the 146 hospitals being consolidated. This adjustment had a $186 million surplus impact on hospital sector results.

SCHOOL BOARDS

Year-Over-Year Comparisons – Actuals

Q. Why is the surplus in 2015-16 $219 million (or 30.5%) higher than the 2014-15 surplus?

A. The surplus increased by $219 million from $717 million in 2014-15 to $936 million in 2015-16. The increase is mainly due to:

- $360 million lower salary and benefit expense due to 6 less teaching days in 2015-16;
- $253 million lower expense (mainly salary and benefit expense) due to reversal of a 2014-15 accrued expense which did not materialize;

- $23 million higher Education Development Charge (EDC) revenue due to more boards are eligible to collect EDC;
- $16 million lower expense due to higher operating funding used for capital purposes;
- $17 million lower interest expense due to a decreased debt balance;

  Offset by

- $387 million decrease in capital grants due to delay in construction of capital projects;
- $49 million higher amortization expense due to more capital assets placed into service; and
- 14 million higher other expenses.

Q. Why is the Sector Expense in 2015-16 $292 million (or 1.3%) lower than the 2014-15 Sector Expense?

A. The sector expense decreased from $22,908 million in 2014-15 to $22,615 million in 2015-16. The decrease of $292 million is mainly due to:

- $360 million lower salary and benefit expense due to 6 less teaching days in 2015-16;
- $253 million lower expense (mainly salary and benefit expense) due to reversal of a 2014-15 accrued expense which did not materialize;
- $23 million higher Education Development Charge (EDC) revenue due to more boards are eligible to collect EDC;
- $16 million lower expense due to higher operating funding used for capital purposes;
- $17 million lower interest expense due to a decreased debt balance;

Offset by:

- $223 million higher FDK funding;
- $117 million higher other GSN funding; and
- $49 million higher amortization expense due to more capital assets placed into service.

Comparison to Interim Estimates in the 2016 Budget

Q. Why is the surplus for 2015-16 $1.9 million (or 0.2%) higher than projected Interim estimates in the 2016 Budget?

A. The increase of $1.9 million from interim estimates is immaterial. No explanations required.

Q. Why is the Sector Expense for 2015-16 $299 million (or 1.3%) lower than projected interim estimates in the 2016 Budget?

A. The sector expense decreased by $299 million from $22,915 million in the interim estimates to $22,615 million in the 2015-16Annual Report. The decrease is mainly due to:

- $120 million lower expense (mainly salary and benefit expense) due to two less teaching days than in the interim forecast;
- $42 million lower expense due to higher operating funding used for capital purposes;
- $12 million lower amortization expense than expected due to delays in construction of capital projects;
- $65 million general decrease in expenses compared to interim forecast; and
- $60 million higher third party revenue (e.g. international student fees, cafeteria income etc.).

Comparison to 2015 Budget Forecasts

Q. Why is the surplus for 2015-16 $47 million (or 4.8%) lower than projected in the 2015 Budget?

A. The surplus decreased from $983 million projected in the 2015 Budget to $936 million in the 2015-16 Annual Report, a decrease of $47 million. This decrease is mainly due to:

- $240 million lower expense (mainly salary and benefit expense) due to four less teaching days than in the 2015 Budget forecast;
- $127 million lower expense (mainly salary and benefit expense) due to reversal of a 2014-15 accrued expense which did not materialize;
- $128 million lower expenses as a result of school boards meeting balanced budget requirements;
- $81 million lower expense due to higher operating funding used for capital purposes;
- $40 million lower expense(mainly salary and benefit expense) due to savings arising from labour disruptions;
- $14 million lower interest expense than expected;
- $69 million higher Education Development Charge revenue due to more boards being eligible for EDC than forecasted;

Offset by

- $608 million lower capital grants mainly due to the delay in construction of capital projects ; and
- $140 million grant repayment due to a prior year accrual that did not materialize.

Q. Why is the Sector Expense for 2015-16 $699 million (3.0%) lower than projected in the 2015 Budget?

A. The sector expense decreased from $23,315 million in 2015 budget to $22,615 million in the 2015-16Annual Report, a decrease of $699 million. The decrease is mainly due to:

- $240 million lower expense (mainly salary and benefit expense) due to four less teaching days than in the 2015 Budget forecast;
- $127 million lower expense (mainly salary and benefit expense) due to reversal of a 2014-15 accrued expense which did not materialize;
- $128 million lower expenses as a result of school boards meeting balanced budget requirements;
- $81 million lower expense due to higher operating funding used for capital purposes;
- $40 million lower expense(mainly salary and benefit expense) due to savings arising from labour disruptions;
- $14 million lower interest expense than expected;
- $69 million higher Education Development Charge revenue due to more boards being eligible for EDC than forecasted.

Other

Q. What was the total surplus/deficit reported by the School Boards sector in their Financial Statements?

A. The sector reported a surplus of $620 million. 49 of the 72 school boards reported a surplus, while 23 reported a deficit. As well, 46 of the 72 school boards reported an improvement and 26 reported deterioration in their financial results compared to 2014-15.

Q. What are the major differences between the $620 million surplus reported in the School Board sector Audited Financial Statements and the $936 million surplus reported in the Annual Report?

A. Starting with the school boards audited financial statements, consolidation adjustments are made to align the reporting of the school board sector with the accounting policies of the Province. The main adjustments are as follows:

- Capital funding received and deferred by school boards (not reported as income in the current period) is adjusted to be recognized as income. This adjustment increased the surplus by $281 million;
- Unspent provincial funding in deferred revenue is adjusted to be recognized as income. This adjustment decreased the surplus by $161 million;

- School boards are required to defer the proceeds of disposition from the sale of tangible capital assets. On consolidation, this amount is adjusted to also be recognized as an in-year revenue. This adjustment increased the surplus by $47 million;
- Adjustments related to accrual and timing differences between school boards and organizations within the government reporting entity which increased the surplus by $150 million.

COLLEGES

Year-Over-Year Comparisons – Actuals

Q. Why is the Surplus in 2015-16 $18 million (or 17%) higher than the 2014-15 Surplus?

A. The increase is primarily due to:

- $147 million increase in third party revenue, mostly attributable to increases in tuition revenue and other student fees. This increase is due to international student enrolment growth as well as annual tuition fee increases, and

Offset by:

- $105 million increase in expenses primarily due to salaries and benefits as a result of annual cost escalation based on negotiated labour contracts; and
- $24 million decrease in provincial grant revenues primarily due to reduced capital funding to the college sector.

Q Why is the Sector Expense in 2015-16 $42 million (or 2.5%) lower than the 2014-15 Sector Expense?

A. The decrease is primarily due to:

- $105 million increase in expenses primarily due to salaries and benefits as a result of annual cost escalation based on negotiated labour contracts;

Offset by,

- $147 million increase in third party revenue, mostly attributable to increases in tuition revenue and other student fees. This increase is due to international student enrolment growth as well as annual tuition fee increases.

Comparison to Interim Estimates in the 2016 Budget

Q. Why is the surplus for 2015-16 $69 million (or 137%) higher than projected Interim Estimates in the 2016 Budget?

A. The increase is primarily due to:

- $45 million higher than projected third party revenue primarily from higher tuition and student fees ($52 million) offset by decreases in provincial grants revenue ($7 million); and
- $24 million lower than forecasted expenses primarily due to lower than projected salaries and benefits.

Q. Why is the Sector Expense for 2015-16 $76 million (or 4.4%) lower than projected Interim Estimates in the 2016 Budget?

A. The decrease is primarily due to:

- $52 million higher than projected third party revenue primarily from higher tuition and student fees; and
- $24 million lower than forecasted expenses primarily due to lower than projected salaries and benefits.

Comparison to 2015 Budget Forecasts

Q. Why is the Surplus for 2015-16 $77 million (or 179%) higher than projected in the 2015 Budget?

A. The increase is primarily due to:

- $38 million higher than projected third party revenues mainly due to higher tuition and student fees; and
- $46 million lower than projected expenses mostly attributable to lower salaries and benefits.

Offset by

- $7 million lower than projected provincial grants revenue.

Q. Why is the Sector Expense for 2015-16 $84 million (or 4.8%) lower than projected in the 2015 Budget?

A. The decrease is primarily due to:

- $38million higher than projected third party revenues mainly due to higher tuition and student fees
- $46 million lower than projected expenses mostly attributable to lower salaries and benefits.

Other

Q. What was the total surplus reported by the colleges sector in their Audited Financial Statements?

A. In fiscal 2015-16, 24 colleges reported a $136 million surplus in total.

Q. What are the major differences between the $136 million surplus reported in the college sector Audited Financial Statements and the $120 million reported in the Annual Report?

A. Starting with the colleges audited financial statements, consolidation adjustments are made to align the reporting of the college sector with the accounting policies and practices of the Province.

Adjustments are made to the colleges' pre-consolidated surplus related to provincial funding received and deferred by colleges (not reported as income in the current period). Such deferred funding is adjusted to income in the post-consolidated college sector results. In addition, deferred capital funding that has been recognized as revenue by colleges is adjusted out from revenue. These adjustments decreased the surplus by $24.2 million.

Endowment contributions are not recorded as revenues by colleges. Colleges may also make other direct entries into net assets without flowing through the income statement. Upon consolidation, these contributions and entries are adjusted through income statement. These adjustments increased the surplus by $6 million.

The Colleges of Applied Arts and Technology Pension Plan generally have expenses that are different than the amounts the plan charges colleges as contributions. An adjustment is made to recognize the true plan expenses rather than just the college's contributions to the plan. This year the adjustment decreased the expense and therefore increased the surplus by $12 million.

Adjustments relating to accrual and timing differences are made to ensure transactions between colleges and other entities within the government reporting entity are accounted for consistently upon consolidation. These adjustments decreased the surplus by $9.3 million.

Q: What progress has been made in implementing the Premier's Advisory Council's recommendations to broaden Hydro One ownership?

A: The government has been implementing the recommendations by the Council to support broadening Hydro One ownership, including:

- legislation restricting the Province from being able to sell down its interest to holding less than 40 per cent of the voting securities in Hydro One, with no other shareholder or group of shareholders acting jointly together allowed to hold more than 10 per cent of the voting securities;
- legislation requiring that Hydro One retain its headquarters and grid control

centre in Ontario and for substantially all of Hydro One's senior executives with strategic decision-making authority to be located and carry out those functions in Ontario;

- legislation strengthening the Ontario Energy Board (OEB) to further enhance its ability to protect electricity ratepayers with respect to cost, consumer protection and service reliability; and
- a governance agreement and registration rights agreement with Hydro One to serve both the public interest and investors' interests.
- In November 2015, the Province completed the first phase of broadening Hydro One ownership, as recommended by the Council.
- In the 2015-16Annual Report, the Province is reporting a gain of $0.8 billion from the sale of Hydro One shares. There were other associated benefits in connection with the initial public offering (IPO), including a positive impact to the Province's income from Hydro One as a result of a deferred tax benefit recorded by Hydro One. This increased the Province's reported revenues by $2.4 billion.
- On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust, bringing total balance of the Trillium Trust to over $4.5 billion.
- In April 2016, a secondary offering of Hydro One shares raised approximately $1.97 billion in gross proceeds. The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

ONTARIO TEACHERS' PENSION PLAN EXPENSE AND EMPLOYEE AND PENSIONER BENEFITS

($Millions)	2015 Budget	2015-16 Actual	2014-15 Actual	Interim	Actual Versus Budget Variance	Year Over Year Variance
Ontario Teachers' Pension Plan	71	**1,590**	564	112	1,519	1,026

TEACHER'S PENSION PLAN

Q. Why has the 2015-16 Teachers' Pension Plan expense of $1,590M increased by $1,026M from 2014-15 actual of $564M?

A. The 2015-16 Teachers' Pension Plan expense increased by $1,026M over 2014-15 actuals primarily due to pension valuation allowance of $1,480M was recorded against the 2015-16 net pension asset of Teachers' Pension Plan and the increase was partially offset by accounting impacts of the investment gains on fund assets from 2009 to 2014.

Q. Why has the 2015-16 Teachers' Pension Plan expense of $1,590M higher by $1,519M from what had been projected in prior year's Budget of $71M?

A. The 2015-16 Teachers' Pension Plan is higher from what had been projected in the 2015 Budget due to pension valuation allowance of $1,480 was recorded against the 2015-16 net pension asset of Teachers' Pension Plan and due to higher than expected increase in active members.

($ Millions)	2015 Budget	2015-16 Actual	2014-15 Actual	Interim	Actual Versus Budget Variance	Year Over Year Variance
OPS Pension Expense	756	**730**	787	719	(26)	(57)
Non-Pension Retirement	334	**393**	319	372	59	74
Post-Employment and Other	199	**(102)**	80	(8)	(301)	(182)
Employee and Pensioner Benefits	1,289	**1,021**	1,186	1,083	(268)	(165)

EMPLOYEE AND PENSIONER BENEFITS

Q. Why has the 2015-16 Employee and Pensioner Benefits Expense of $1,021M decreased by $165M from 2014-15 actual of $1,186M?

A. The 2015-16 actual Employee and Pensioner Benefits expense is $165M lower than 2014-15 mainly due to:

- lower post-employment and other benefit expense as result of plan changes for OPSEU members made to termination pay, Long-Term Protection Benefits (LTIP) and medical, dental and life insurance benefits associated with LTIP which is partially offset by lower discount rate;
- lower OPS pension expense due to increased accounting impacts of 2014 gain on fund assets being reflected in pension expense that is partially offset by pension valuation allowance recorded against 2015-16 net pension asset of OPSEU Pension Plan; and
- the decrease is partially offset by higher non-pension retirement benefit expense as result of arbitration decision resulting from Association of Law Officers of the Crown/Ontario Crown Attorneys Association (ALOC/OCAA) arbitration decision and due to impact of lower discount rate.

Q. Why is the actual 2015-16 Employee and Pensioner Benefits Expense of $1,021M lower by $268M from what had been projected in prior year's Budget of $1,289M?

A. The 2015-16 actual Employee and Pensioner Benefits expense is $268M lower than originally forecasted due to:

- lower post-employment and other benefit expense as result of plan changes for OPSEU members made to termination pay, Long-Term Protection Benefits (LTIP) and medical, dental and life insurance benefits associated with LTIP that was not included in the original forecast;
- lower OPS pension expense due to the actual increase in active members was lower than forecasted which is partially offset by pension valuation allowance recorded against 2015-16 net pension asset of OPSEU Pension Plan that was not included in original forecast; and
- the decrease is partially offset by higher non-pension retirement benefit expense as result of arbitration decision resulting from Association of Law Officers of the Crown/Ontario Crown Attorneys Association (ALOC/OCAA) arbitration decision and due to impact of lower discount rate than was used in original forecast.

HEALTHCARE OF ONTARIO PENSION PLAN

Q. Why did the Healthcare of Ontario Pension Plan expense decrease by $96M from $843M in 2014-15 to $747M in 2015-16?

A. The Healthcare of Ontario Pension Plan expense decreased compared to prior year's actual mainly due to an increase in amortization of prior years' experience gains and higher interest earnings as a result of an increase in the plan asset base. Decreases in year over year expenses were partially offset by higher current service costs as a result of an increase in active membership in 2015-16.

COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN

Q. Why did the Colleges of Applied Arts and Technology Pension Plan expense decrease by $9M from $199M in 2014-15 to $190M in 2015-16?

A. The Colleges of Applied Arts and Technology Pension Plan expense decreased compared to prior year's actual, mainly due to the amortization of 2014 experience gains, which commences in 2015-16 and the dropping off of prior year experience losses.

INFRASTRUCTURE

Infrastructure Expenditures Table

Q. Why is the 2015-16 total infrastructure expenditure $1.1 billion lower than planned in the 2015 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends withAnnual Report. The forecast in Budget 2015 was subject to change as new information became available throughout the year. Infrastructure spending of $12.8 billion, including other partner funding, reported in the Annual Report was $1.1 billion lower than the $13.9 billion set out in the 2015 Budget.

Underspending is mainly due to slower than expected construction progress in the other sector ($0.7 billion) and education sector (about $0.4 billion) .

Q. Why is the 2015-16 total infrastructure expenditure $0.1 billion lower than estimated in the interim forecast in the 2016 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends withAnnual Report. The interim forecast was subject change as new information became available throughout the year. Infrastructure spending of $12.8 billion, including other partner funding, reported in the Annual Report was $0.1 billion lower than the $12.9 billion set out in the interim forecast in the 2016 Budget due to slower than expected.

Q. How have AFPs helped the government improve efficiency and deliver infrastructure projects on-time and on-budget?

A. The Alternative Financing and Procurement (AFP) model helps the government to deliver projects efficiently by integrating design, construction and in some cases long-term maintenance requirements, and by assigning each project risk to the partner best able to manage it. These actions create strong performance incentives for our partners, leading them to deliver projects on-time, on-budget, and at a lower overall cost.

Infrastructure Ontario is managing over 85 projects for the Ontario government using the AFP model, and based on its Value for Money (VfM) analysis, estimates a resulting savings of $6 billion over the life of those projects.

These include projects such as:

- Credit Valley Hospital in Mississauga: estimated VfM savings of $26 million
- London Health Sciences/St. Joseph's Health Campus (Phase 2): estimated VFM savings of $50 million
- Ministry of Government Services Data Centre in Guelph: estimated VFM savings of $64 million

- North Bay Regional Health Centre: estimated VFM savings of $57 million
- Quinte Health Care in Belleville: estimated VFM savings of $9 million

The expanded use of Infrastructure Ontario's expertise and the use of the AFP model for project delivery to a wider range of projects and sectors have helped to ensure infrastructure projects come in on time and on budget.

Q. How much did the government spend on Moving Ontario Forward in 2015-16?

A. The government has made progress on many projects in the Moving Ontario Forward plan. Spending in 2015-16 was approximately $256M, which included $100M for the Ontario Community Infrastructure Fund (OCIF) and about $156M for Regional Express Rail enabling work. Additional expense in 2015-16 includes design work on Hamilton Light Rail Transit and Hurontario Light Rail Transit projects. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

Q. Why has amortization cost gone up so significantly between 2011-12 and 2015-16?

A. Amortization recognizes consumption of Tangible Capital Assets. Amortization expense is primarily made up of amortization on existing assets. As these assets reach the end of their useful lives, the associated amortization disappears. This decline is offset by new amortization expense as new infrastructure projects come into service. Between 2011-12 and 2015-16, the province invested $54 billion in capital assets. As these assets have come into service, the corresponding consumption cost (amortization) has gone up. As the government continues to invest in infrastructure, amortization expense will continue to grow.

Q. If we invested $10.4B in publically owned infrastructure assets in 2015-16, why does TCA only go up by $5.5B?

A. The net book value of tangible capital assets is calculated as the book value (purchase price) less accumulated amortization. As long as assets are being amortized, growth in the stock of the Province's TCA on a yearly basis will always be less than the yearly investment. Estimated historical cost was used to record existing tangible capital assets if actual cost was unknown when the Province first implemented tangible capital assets accounting. Tangible capital assets, except land, are amortized over the estimated useful lives of the assets on a straight-line basis. Amortization expense of TCA in 2015-16 totalled $4.9B.

Q. What are some examples of investments made in those years?

A. A few examples of the many infrastructure investments Ontario has made over the last five years include:

- The Pan/Parapan American Games Athletes' Village, which was home to about 10,000 athletes and officials during the Games. The village will be transformed into a mixed-use neighbourhood with affordable housing, health services and a residence for George Brown College students.
- The Union Pearson (UP) Express, which began service in 2015,provides a dedicated rail link connecting Toronto Pearson International Airport with Union Station in downtown Toronto in 25 minutes.
- The Right Honourable Herb Gray Parkway in Windsor–Essex, provides an express route to the country's busiest land border crossing, and was completed in October, 2015.
- The Humber College infrastructure project involved the construction of a new Learning Resource Commons and an academic support and student services facility.
- The Elgin County Courthouse brings together existing court facilities within one location in St. Thomas.
- The New Oakville-Trafalgar Memorial Hospital is a state-of-the-art facility accommodating a full range of hospital services including acute care, complex continuing care and rehabilitation.
- The new Humber River Hospital includes a new facility on a new site in north-western Toronto, one of the most culturally diverse and fastest-growing communities in Canada. The Humber River Hospital offers a comprehensive range of services to support inpatient and outpatient programs.

Q. What kind of infrastructure investments does the Province make which do not contribute to the net book value of tangible capital assets?

A: The Province makes transfers to its non-consolidated partners, such as municipalities and universities, for capital purposes. This spending is recorded in the Infrastructure expenditures table (Table 4) as 'Transfers and Other Infrastructure Expenditures.' 'Other Infrastructure Expenditures' includes expenses such as non-capitalized maintenance costs (e.g., window cleaning of provincially owned buildings). These expenses are included as part of overall infrastructure spending, but do not contribute to the net book value of the Province's tangible capital assets.

ELECTRICITY SECTOR

2015–16 vs 2015 Budget Plan

Q. Why did the combined net income of Ontario Power Generation Inc. (OPG) and Hydro One Inc. (HOI) decrease by $293 million from the 2015 Plan?

A. The combined net income of OPG and Hydro One for 2015-16 is below the amount presented under income from government business enterprises in the 2015 Budget forecast for 2015-16 primarily because the various impacts of broadening the ownership of Hydro One in Budget 2015, including on Hydro One net income, were consolidated under Sales and Rentals under other non-tax revenue [note: this was to not separately identify the Province's projected revenues from Hydro One share sales for securities and commercial sensitivities reasons].

The $293 million decrease as shown is primarily due to Hydro One's initial public offering (IPO) impacts, including impacts on Hydro One's net income of a $2.6 billion in departure tax and about $0.2 billion in one-time additional payments-in-lieu of taxes (PILs), partly offset by the impact of a deferred tax benefit on the proportion of Hydro One net income attributed to the Province, and a reduction in the Province's share of Hydro One net income for the period following the IPO (about 84% as of March 31, 2016). The decrease is partly offset by an increase in OPG's net income driven by better than forecast results of the nuclear funds on a realized basis, lower operating costs, and the impacts of the Ontario Energy Board review decision.

Q. What accounted for the $2,704 million increase in Electricity Payments-in-lieu of Taxes (PILs) compared to the 2015 Plan?

A. The increase is primarily due to significant one-time PILs related to Hydro One's IPO, including $2.6 billion in departure tax under the PILs regime and about $0.2 billion additional PILs, as Hydro One exited the PILs regime and started paying corporate income taxes following the IPO. Note that in the 2015 Budget, all net revenue impacts associated with Asset Optimization for Plan 2015-16, including any PILs associated with the IPO, were reflected in Sales and Rental. Note also that these one-time PIL payments did not have a net effect on the Province's annual deficit, as the additional revenue was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements.

2015-16 vs Interim 2015-16

Q. What accounted for $389 million increase in combined net incomes of OPG and Hydro One in 2015-16 compared to interim forecast for 2015-16?

A. The increase is primarily due to the final determination of the impact on the Province of Hydro One's deferred tax benefit impact on its net income, published in Hydro One's 2015 Annual Report, which is higher than the amount assumed at the time of the estimate of the interim results presented in 2016 Budget, partly offset by a small decrease in OPG's financial result versus interim estimate.

Q. What accounted for the $4 million decrease in Electricity Payments-in-lieu of Taxes (PILs) compared to the 2015-16 interim forecast?

A. The small variance is due to finalization of PILs payments.

Q. What accounted for the $91 million increase in Power Supply Contract Recoveries in 2015-16 compared to the 2015-16 interim forecast?

A. The increase is due to higher than projected Non-Utility Generator (NUG) costs than forecast at the time of 2016 Budget, which is explained by higher than forecast volume.

2015-16 vs 2014-15

Q. Why did Ontario Power Generation's (OPG) net income decrease by $593 million compared to that of last year's?

A. The decrease is mainly due to OPG's extraordinarily high net income in 2014-15 as a result of a one-time gain related to the newly regulated hydroelectric facilities [i.e. regulatory assets related to deferred income taxes expected to be recovered from customers through future regulated prices]. Other factors leading to this decrease include higher market prices for OPG's previously unregulated hydroelectric facilities in the first part of 2014.

Q. What accounted for the $3,036 million increase in Electricity Payments-in-lieu of Taxes (PILs) year-over-year?

A. The increase is primarily due to significant one-time PILs related to broadening Hydro One ownership broadening, which include a $2.6 billion departure tax and about $0.2 billion in additional PILs. Note that these one-time PIL payments did not have a net effect on the Province's annual deficit, as the additional revenue was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements.

Q. Why did Power Supply Contract Recoveries decrease by $75 million year- over-year?

A. The power supply contract recovery figures decline over time primarily due to the expiration of power supply contracts over time.

Note that any change in Power Supply Contract Recovery revenues is fully offset by an equal change in expense under Power Supply Contract Costs, and, therefore, is fiscally neutral.

Electricity Sector Stranded Debt

Q. What is the status of old Ontario Hydro's stranded debt? When is the Debt Retirement Charge (DRC) expected to end based on the latest available information?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt has been reduced, based on the 2015–16 results for the OEFC showing an excess of revenue over expense of $3.7 billion. The OEFC has paid down stranded debt by a total of about $16.2 billion from its peak in 2003-04, reducing stranded debt to $4.4 billion as at March 31, 2016.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Q. What is the impact of broadening ownership of Hydro One on Residual Stranded Debt?

A. The 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving in fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability was partly offset by lower Electricity Sector Dedicated Income. In addition, the one-time departure tax reflects that Hydro One is now a taxable corporation, so it no longer pays payments-in-lieu of corporate taxes (PILs) to OEFC, which reduces the estimated present value of future dedicated revenues to OEFC.

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

As part of the government's commitment to using the proceeds from broadening Hydro One ownership for infrastructure investments and paying down debt, proceeds related to the book value of the shares sold and the pre-IPO special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables.

This will allow the OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt paydown. This debt paydown does not affect OEFC's stranded debt, as OEFC's receivables from the Province will be reduced by an equivalent amount.

[Note, Provincial payables to OEFC are notes payable to OEFC from the Province's acquisition of the equity in Hydro One in 1999, and in respect of cumulative net income since 1999.
Note this portion of the proceeds would have no net impact on OEFC's unfunded liability, as the cash asset would be offset by the reduction in the OEFC's receivable from the Province.]

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Following share sales, the Province would dedicate the portion of the net income that reflects its ownership stake. For example, in the case of 2015-16, after the IPO and related share sales in November 2015, the Province owned about 84% of Hydro One common shares, so about 84 per cent of Hydro One's earnings, post-IPO, less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

2. Loss of federal portion of PILs: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC, which helped service and pay down the stranded debt of the electricity sector. PILs to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. Following the beginning of broadening of ownership in Hydro One in November 2015, the Province's ownership of Hydro One fell below 90 per cent and the company ceased to be exempt from federal and Ontario income taxes and started to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT. Under the amendments made to the *Electricity Act, 1998* in the *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial CIT) by Hydro One Inc. (HOI), to continue to help service and pay down the electricity sector stranded debt. HOI is composed of Hydro One Ltd.'s regulated Ontario distribution, transmission and remotes businesses.

Q. When will the OEFC 2015-16 Annual Report be available?

A. Under the *Electricity Act, 1998*, the time frame for preparing and submitting the Annual Report may be extended to reflect the timeframe for Public Accounts. Given the changes to the *Electricity Act* and significant activities during 2015-16 that affected OEFC, it was prudent to take additional time to review the impacts on OEFC in preparing the financial results for 2015-16.

- OEFC's annual reports contain OEFC's audited financial statements which are also released as part of Volume 2 of the Province's Annual Report
    - OEFC's audited 2014-2015 financial statements, including the notes to the financial statements, were released on Sep 28, 2015 in Volume Two of the 2014-15 Public Accounts.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.

- OEFC's past Annual Reports (1999-2000 to 2014-2015) can be downloaded from the OEFC website. (http://www.oefc.on.ca/publications.html).

- A spreadsheet containing OEFC's historical financial statements can be accessed on OEFC's website (http://www.oefc.on.ca/pdf/OEFC_financials_historicals_en.xls)

RESERVE FUND

Q. Why does the government maintain a reserve fund? Last year there were questions raised about the government dipping into its reserve fund to strengthen its results. Did you do that this year?

A. As required under the *Fiscal Transparency and Accountability Act, 2004*, a reserve is included in the projected surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

The 2015 Budget plan included a $1.0 billion reserve for 2015–16. Excluding this reserve, the 2015 Budget projected a deficit of $7.5 billion.

As the reserve is a forecast provision, and the fiscal results for 2015–16 are now finalized, a reserve is no longer included in the Province's financial statements.

The final deficit for the 2015–16 fiscal year is $3.8 billion, a $4.7 billion improvement compared with the 2015 Budget projection of $8.5 billion, which included the reserve.

Q. What is the difference between the contingency fund and the reserve?

A. The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover higher spending due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense – for example, changes in Ontario's economic performance.

RESULTS VERSUS 1ST QUARTER REPORT

Q Was the government being overly conservative in its revenue forecast in the 2016-17 First Quarter Finances based on the Annual Report results for the 2015-16 fiscal year?

A No. The 2016-17 First Quarter Finances was released in August 2016, before the finalization of 2015-16 results and the release of the 2015-16 Annual Report. Subsequent financial updates will reflect new information including 2015-16 Annual Report results.

UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Q. Why are we removing from the accounting records uncollectible accounts receivable owed to the Province?

A. Removing uncollectible accounts receivable is required under Public Sector Accounting Standards. After a ministry has taken appropriate collection efforts and has determined that it is unlikely to collect a debt, accounting principles require the account to be removed to reflect the proper value of accounts receivable assets.

Q. How will the write-offs be shown in Annual Report?

A. The Ministries' uncollectible accounts receivable are required to be published in a table called "Losses Deleted from the Accounts" in Volume 2 of the 2015/16Annual Report.

Q. Is removing uncollectible accounts receivable the same as forgiving the debt?

A. No. If debt is forgiven, the Province cannot pursue or collect on the debt in the future. However, having an account written-off does not eliminate the debtor's legal obligation to pay the liability. The Province may attempt to collect the money owed if the debtor's circumstances change in the future. In 2014/15, $16.5M was collected on accounts previously written off.

Q. How do you determine when a debt is uncollectible?

A. In the vast majority of cases, a debt may become uncollectible when a corporation or individual debtor becomes insolvent or goes bankrupt; or when an individual debtor dies, is imprisoned for a long term or cannot be located for a considerable period of time.

It may take several years of progressive collection action before an uncollectible account receivable is submitted for removal from the accounting records.

Q. How does this affect the Province's bottom line?

A. There is no impact on the deficit/surplus in the year in which the accounts are removed from the accounting records.

The fiscal impact is incurred in a prior year, when the account is initially identified as being doubtful. At that time, a bad debt expense is recorded and this impacts the bottom line.

Q. What is the amount of uncollectible accounts receivable this year?

A. The total uncollectible accounts receivable for 2015/16 is $395.9 million.

Q. What amount of unpaid taxes is included in the Ministry of Finance's total?

A. The total for tax-related amounts is $246.6 million, which represents 98% of MOF's submission of $251.1 million and is attributable to bankrupt or insolvent tax receivables.

Q. How does the amount of uncollectible accounts receivable compare with total accounts receivable?

A. This year's uncollectible accounts receivable represents about 4.0% (4.2% in 2014/15) of the Province's accounts receivable.

Q. What steps is the government taking to reduce future write-off of accounts receivable?

A. Common progressive collection tools include the use of private collection agencies and the Canada Revenue Agency (CRA) Refund Setoff Program, in addition to any specific legislated tools provided in the appropriate legislation (e.g., – claw backs, liens, director's liability).The centralization of collections within MOF helps ensure a standard, OPS-wide use of such tools.

(AS PRESENTED IN ANNUAL REPORT)

LOSSES DELETED FROM THE ACCOUNTS

(Under the Financial Administration Act)
for the year ended March 31, 2016

	$
AGRICULTURE, FOOD AND RURAL AFFAIRS	247,333.00
ATTORNEY GENERAL	6,738,409.73
ABORIGINAL AFFAIRS	244,997.00
CHILDREN AND YOUTH SERVICES	360,407.63
COMMUNITY AND SOCIAL SERVICES	65,302,129.14
COMMUNITY SAFETY AND CORRECTIONAL SERVICES	167,746.12
ECONOMIC DEVELOPMENT, EMPLOYMENT AND INFRASTRUCTURE/RESEARCH AND INNOVATION	8,081,359.34
EDUCATION	28,878.76
FINANCE	251,066,979.24
GOVERNMENT AND CONSUMER SERVICES	14,009.22
HEALTH AND LONG-TERM CARE	1,490,338.26
LABOUR	2,928.74
MUNICIPAL AFFAIRS AND HOUSING	1,954,111.28
NATURAL RESOURCES AND FORESTRY	1,678,635.03
NORTHERN DEVELOPMENT AND MINES	9,903.74
TRAINING, COLLEGES AND UNIVERSITIES	57,214,978.99
TRANSPORTATION	1,371,455.72
Total	$ 395,974,600.94