FAO

# Questions for MOF

April 28, 2017

**Economics**

Q1. Why is the growth rate for labour compensation running significantly above the growth for primary household income, particularly in 2018 and 2019? **OEP-MOF**

A1. When the labour market is tighter in Ontario and conditions are improving elsewhere in Canada, there is evidence that labour compensation growth outpaces growth in primary household income.

- Over the 1997-00 and 2003-07 periods, labour compensation growth in Ontario outpaced primary household income growth by 0.6 and 0.2 percentage points annually, respectively.
- Over the 2010-16 period, labour compensation in Ontario grew at the same rate as primary household income, on average.

All forecasters who project both labour compensation and primary household income expect labour compensation to outpace primary household income over the 2018-2020 period.

- There is divergence in views across forecasters. The Ministry's projection is within the range of forecasters.

Q2. Do you use Compensation of Employees on a 'National Basis' (from Table 11 of the OEA) as the principal PIT driver? In 2016, Labour Compensation on a national basis grew at 4.4% while on a domestic basis it grew 4.2%, which is an unusually large gap. **OEP-MOF**

A2. Yes, Compensation of Employees on a "National Basis is the principal PIT driver.

**Revenue**

Q3. In Table 3.14, sales and rental revenues are projected to increase by $1 billion in 2017-18. Can we get details about the assumptions behind this increase? **OEP-MOF & CEFD-MOF**

A3. The change in Sales and Rentals revenue reflects a number of items, which include higher revenues from some consolidated government agencies and the impacts of the government's multi-year asset optimization strategy.

Please note that the interim 2016-17 sales and rentals total is revised down vs. the 2016-17 sales and rentals forecast in the 2016 Budget, which mainly reflects the re-categorization of revenues related to the Province's asset optimization strategy. This includes the re-categorization from sales and rentals of the impact of the sale of the LCBO head office lands.

The term "re-categorization" is used to refer to fiscal impacts related to the Province's asset optimization strategy that were previously consolidated in the sales and rentals line item that are now being unpacked to other revenue lines with no impact to the Province's fiscal plan. In the previous Budgets, as you may recall, the government included future projected net revenues related to asset optimization in the sales and rentals line item to ensure confidentiality on the specific estimated amounts and timing of certain elements of the Province's asset optimization initiative to protect the commercial interests of the Province. As the sale of assets occurs, the government re-categorizes the impacts of the asset sales into their respective line items. This allows for the Province to transparently report the fiscal impacts of the transaction in the relevant revenue lines once the sale of an asset has occurred.

Similarly, projected net revenue impacts related to future transactions under the Province's asset optimization strategy remain reported as a net number under Sales and Rentals in consideration of the commercial and securities sensitivity of such transactions.

The change in Sales and Rentals revenue reflects a number of items, which include higher revenues from some consolidated government agencies and revisions to the government's multi-year asset optimization target to reflect the progress made so far. For example, the 2016-17 sales and rentals is revised down to reflect this progress as revenues from the Hydro One IPO and 2016 Secondary Offering are reflected in the revenue lines affected by these transactions – Hydro One net income under Government Business Enterprises, electricity payments in lieu of taxes and Sales and Rentals.

In the previous Budgets, as you recall, the government included all future projected net revenues related to asset optimization in the Sales and Rentals line item to ensure confidentiality on the specific estimated amounts and timing of certain elements of the Province's asset optimization initiative to protect the commercial interests of the Province. As the sale of assets occurs, the government re-categorizes the impacts of the asset sales into their respective line items.

Similarly, projected net revenue impacts related to future transactions under the Province's asset optimization strategy are captured as a net number under Sales and Rentals in consideration of the commercial and securities sensitivity of such transactions.

Q4. The 2017 federal budget announced new funding for affordable housing, child care, infrastructure, home care and labour-market training. To what extent are these new revenues (and the associated expense) built into the fiscal plan? **OEP-MOF & PEMD/CPD-TBS & OB-MOF**

A4. Budget 2017 projections of Government of Canada transfers include new funding under Strategic Investment Fund for affordable housing, post-secondary education and clean water and wastewater projects. It also includes Public Transit Investment Fund, and funding anticipated for home care & mental health, and jobs and training.

Expenses associated with these findings are built into the fiscal plan except transfers for Home Care & Mental Health and transfers for Jobs and Training, as funding for these items is yet to be finalized. The Home Care & Mental Health line also includes additional federal funding in 2017-18 to support Ontario's housing priorities; linked-expenditure has not yet been identified as funding is yet to be finalized.

**New Federal Funding Since Budget 2016 (For MOF ONLY NOT TO BE SHARED)**

| **$ Million** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **2020-21** |
|---|---|---|---|---|---|
| Investment in Affordable Housing | 321 | 115 | | | |
| Post-Secondary Education | 197 | 267 | 77 | 15 | 15 |
| Clean Water and Wastewater Fund | 85 | 338 | 141 | | |
| GC - Infrastructure Other (PTIF) | | 1,114 | 372 | | |
| Home care and Mental Health | | 146 | 328 | 424 | 482 |
| Jobs and Training | | 77 | 77 | | |
| **Total** | **602** | **2,056** | **994** | **439** | **497** |

**Childcare**

No specific provisions were made for 2017 federal Budget commitments related to child care and labour market/skills training. [Note: this information has not been released to the public].

**Affordable Housing**

The 2017 Federal Budget proposes to invest more than $11.2B over 11 years (2017-18 to 2027-28) to build, renew and repair Canada's stock of affordable housing.

Additional cost-matching risk to Ontario may arise from the new housing strategy associated with the National Housing and affordable housing initiative. However, the Federal Budget did not disclose the cost-sharing splits between various levels of government.

The Federal government may provide further details later this year as part of a National Housing Strategy announcement.

As the program design is still being finalized, the revenue and expense relate to the new federal housing strategy is not built into the current fiscal plan. The 2017 Budget only includes agreements that have been previously ratified (i.e., Investment in Affordable Housing Programs for Ontario).

**Infrastructure Funding**

The 2017 Federal Budget confirmed that the $81 billion Phase 2 funding will be allocated in the following ways:

- $33 billion through bi-lateral agreements.
- $15 billion through the Canada Infrastructure Bank split evenly between public transit, green, and trade and transportation infrastructure.
- $10.8 billion through competitive national funds for housing, trade corridors, cultural spaces and various green initiatives.
- $10.2 billion through multi-lateral frameworks for housing and early childhood education.

In addition $12 billion has been allocated to a variety of infrastructure related initiatives under federal responsibility including investments in Indigenous Communities.

Ontario's share of the Phase 2 Federal Infrastructure funding and funding requirements (e.g. incrementality conditions) will be determined as part of upcoming bi-lateral negotiations with the federal government.

Q5. Expected revenues from Carbon Allowance Proceeds have been reduced by $0.5 billion beginning 2018-19 (Table 6.10). Any explanation of the lower revenue projection?

a) Is the annual forecast for Carbon Allowance Proceeds $1.4 billion? If so, does the higher amount in 2017-18 of $1.8 billion just reflect the shifting of proceeds from the first auction in 2016-17 (that is there is an extra auction in 2017-18 than in future years)? **OEP-MOF**

A5a) Yes, the annual forecast for Carbon Allowance Proceeds is $1.4 Billion except in 2017-18. The higher amount in 2017-18 reflects the shifting of proceeds from the first auction in 2016-17, as the proceeds from the first auction are being certified, settled and recorded in the 2017-18 fiscal year. In other words, there will be revenues from five auctions recognized in 2017-18, while going forward there will be four in each fiscal year.

b) Are the associated expenses from the Green Investment Fund being reduced as well, to reflect the lower revenue forecast? **PEMD-TBS**

A5b) No, expenses associated with the Green Investment Fund will not be reduced to reflect the lower revenue forecast and will remain at the level publically announced.

Q6. Base revenue growth for Corporations Tax and Sales Tax are noticeably stronger than the growth of their underlying drivers. What are your elasticity assumptions for Personal Income Tax, Corporations Tax and Sales Tax with respect to their drivers? **OEP-MOF**

A6.

**Corporations Tax:** Corporations tax base revenue is projected to grow at an average annual rate of 6.3 per cent over the 2016-17 to 2019-20 period. This is in line with the 6.5 per cent average annual growth in the net operating surplus, an implied elasticity of 1.0.

**Personal Income Tax:** The primary economic driver of the forecast for Personal Income Tax (PIT) revenue is the outlook for growth in the compensation of employees. PIT revenue tends to grow at a faster rate than incomes due to the progressive structure of the PIT system. Budget 2017 assumes an elasticity of 1.3 for PIT.

**Sales Tax:** With regards to Sales Tax revenue, note that about 60 per cent of the HST taxable base is attributable to consumption expenditures and 18 per cent to the housing sector. Housing is driven by new home construction (subject to significant lags especially in the huge GTA condo sector), renovations and real estate transaction fees (not including resale activities).

Over the forecast period of 2017-18 to 2019-20, the HST is projected to grow at 4.9 per cent, slightly faster than nominal consumption of 4.2 per cent, or an elasticity of 1.1. This is justifiable because of Ontario's strong housing sector and as Ontario's share of the overall GST/ HST pool continues to rise as its economy is expected to outperform the rest of Canada.

a) For HST, could you break out the revenues expected from housing and nominal consumption over the forecast? **OEP-MOF**

A6a) There is no breakdown of HST revenues attributable to its different economic drivers. An approximation of the breakdown may be derived by applying the Ontario HST rate to the taxable base although it is not possible to verify its accuracy.

Q7. The federal government's 2015-16 Annual Financial Report indicated that stronger 2015 federal PIT returns partly reflect "…tax planning by high-income individuals to recognize income in the 2015 tax year before the new 33 per cent tax rate came into effect in 2016". What assumptions were made on the impact of income shifting on Ontario's PIT revenue? **OEP-MOF**

A7. Although at this point, there is no conclusive evidence to suggest that higher 2015 revenue from tax returns processed during 2016 was a result of tax planning, the PIT revenue forecast for 2016-17 includes a one-time downward adjustment of $0.5B to exercise prudence in the forecast. We will have more definitive information as results of the tax returns processed for 2016 arrive.

**Expense**

Q8. The anticipated fiscal impact of the Fair Hydro Plan is approximately $1.8 billion based on information provided to the FAO (roughly $1 billion for HST rebate and $800 million for the electricity social programs). However, the 2017 Budget indicates that the total cost would be around $1.4 billion in 2017-18 (Table 6.15). Can you explain the discrepancy? **PEMD-TBS & CEFD-MOF**

A8. Energy's forecasts for the various programs were refined.

a) OREC – Forecast adjusted for bill impacts of new initiatives under the FHP announced March 2, 2017.

b) Social programs moving to government funded – Preliminary Estimates based on full year 2017-18 versus partial year for 2017-18 reflecting roll-out timing.

| | 2017-18 | |
|---|---|---|
| | Preliminary Estimate | 2017 Budget |
| OREC | 1119 | 939 |
| OESP | 186 | 140 |
| RRRP | 459 | 344 |
| ONFNDC | 20 | 15 |
| Total | 1784 | 1438 |

Q9. A number of new programs were announced in the budget. Can you provide the fiscal impact for these new initiatives (e.g. children and youth pharma-care, child care spaces expansion) by completing the following table? Are these fiscal impacts in the plan? **PEMD/CPD-TBS & TPD-MOF**

**Cost of Announced Programs**

| $ Millions | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|
| Children and Youth Pharmacare | 115 | 465* | 465* | 465* |
| 100,000 Child Care Spaces Expansion | 170 | 282 | 295 | 235 |
| Fair Hydro Plan | 1438 | 1635 | 1711 | 1787 |
| Caregiver Tax Credit | | | | |
| Other major programs? | | | | |

* Beginning in 2018-19, Children and Youth Pharmacare will be partly offset with annual savings of $100M from drug programs.

a) The September Throne Speech announced the expansion of 100,000 new child care spaces. The budget announced 24,000 additional spaces. What is the progress in the rollout plan for the remaining spaces? Is there additional fiscal impact from the Throne Speech that have not been incorporated? **PEMD-TBS**

A9a) The government has committed to creating 24,000 new child care spaces in 2017-18. This commitment is part of the Province's plan to help 100,000 more children access child care, as announced in the 2016 Ontario Speech from the Throne. This commitment builds on the progress of recent child care expansion, including helping create 56,000 new licensed child care spaces over the past three years. The fiscal impact of child care expansion initiatives will be impacted by timing and allocation of funding to service managers (e.g., municipalities), and will continue to evolve as this commitment is implemented.

**Debt**

Q9. The budget indicated that the government aims to reduce the net debt to GDP target to 35 per cent by 2023-24 and 27 per cent by 2028-29. What assumptions are built into this projection for nominal GDP, the budget balance, and capital expenditure? **OFA-MOF & CPD-TBS**

A9. Our Net Debt assumptions have many moving parts and are from several sources, namely OEP and CPD. They were factored into our net debt calculations as follows:

1) Pension is reversed and deficit for 2016-17 is $1,524 million
2) The denominator annual nominal GDP that goes into the net debt calculation % is per latest information received from OEP used for the 2017 Budget
3) A major component of the net debt calculation in the numerator, the book value of tangible capital assets, is per the latest information received from CPD used for the 2017 Budget

**Details from CPD-TBS:**
Capital's impact on net debt is estimated as the increase in the net book value (NBV) of capital assets each year (annual acquisitions less amortization). The NBV of tangible capital assets represents the cost of the province's owned and consolidated tangible capital assets, less accumulated amortization and the amount of any write-downs.

The below table outlines forecasted growth in the NBV of capital assets based on planned acquisitions and amortization expense. Note that acquisitions include those funded through third party contributions and that amortization includes deferred capital contributions.

| PROVINCIAL TCA<br>Net Book Value ($ Billions) | 2016-17 Interim | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Opening Net Book Value** | **102536** | **108,372** | **118,377** | **129,727** | **142,313** | **153,001** | **160,985** | **165,948** | **165,888** | **167,105** | **165,376** |
| Annual Acquisitions | 11,092 | 15,566 | 17,274 | 18,851 | 17,433 | 15,352 | 12,919 | 8,314 | 9,932 | 7,194 | 8,612 |
| Gross Amortization Expense | (5,256) | (5,562) | (5,924) | (6,265) | (6,745) | (7,369) | (7,956) | (8,374) | (8,715) | (8,923) | (9,008) |
| **Closing Net Book Value** | **108,372** | **118,377** | **129,727** | **142,313** | **153,001** | **160,985** | **165,948** | **165,888** | **167,105** | **165,376** | **164,981** |

Notes:
Opening NBV for 2016-17 from public accounts
Annual Acquisitions include other partner funding and federal flowthroughs

4) Our Net Debt amount is not adjusted for prepaid expenses and inventory. Such an adjustment will be done for the 2016-17 Public Accounts onwards going forward (new this year per OPCD request)
5) The balanced budget continues through to 2030-31
6) The Tangible Capital Asset book value is the same from 2026-27 to 2030-31, i.e. no change
7) GDP annual growth is 4% from 2021-22 to 2030-31 per direction from OEP.

Q10. What's the explanation for the increase in cash reserves? Is it related to recent changes in rating criteria requiring more liquid reserves covering the issuance of commercial paper debt? **OFA-MOF**

A10. Ontario actively manages its financial obligations through the maintenance of a liquid reserve portfolio and the use of short-term borrowing. The Province increased its level of unrestricted liquid reserves following the financial crisis in 2008–09.

Coming out of the financial crisis, the Province began a strategy of creating large, liquid 10- and 30-year benchmark domestic bond issues in 2009–10 in response to investor demand. This strategy has been very successful and continues to lower Ontario's borrowing costs and enhance the Province's access to capital.

However, as a result of these large bond issues, the Province will have large cash outflows on single days commencing in 2019–20, rather than having maturities spread more evenly through the year. In anticipation of the need for cash reserves to meet these requirements for large outflows on a single day, the Province began, as noted in Table 6.24, building cash reserves in 2016–17, and will continue to increase these reserves in 2017–18.

This will ensure that Ontario's cash reserves remain at relatively healthy levels, a key requirement from the perspective of the Rating Agencies.

Q11. What is a Designated Purpose Account? **OPCD-TBS**

A11. A Designated Purpose Account (DPA) is an account, or system of accounts, in the financial records, authorized through legislation, that tracks the recognition of specified revenue and expenditures for the purposes outlined in the enabling legislation.

The government established DPAs to demonstrate to the public, progress on the government's commitment to spend over time at least as much as it has accumulated through identified funding sources to achieve the legislated objectives.

In addition, these DPAs support effective reporting and recording of financial activities as they relate to designated government programs and initiatives in accordance with the requirements of its governing legislation.

**Questions from David West – email:**

Q12. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20. Are these detailed tables available to 2020-21? If so, then please include (☺) **OEP-MOF Table 6.14 and OB-MOF & PEMD/CPD-TBS 6.15**

A12. OEP-MOF provided detailed revenue table out to 2019-20 to the FAO through email.

OB-MOF & PEMD-TBS to provide detailed expense tables before the meeting (if possible).

Q13. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9. **OEP-MOF**

A13. Response provided to the FAO as part of email response for Q12.

Q14. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP. **OPCD-TBS**

A14. TBS provided email response to FAO on May 1.

**Follow-up question from David West:**

My one initial question would be that the pension cost (expense less contributions) is now about $1.2b lower than estimated in the 2016 FES for 2018-19.

I assume this is just a reflection of the updated accounting calculations, but we'd be interested to understand the main factor(s) behind this change.

Q15. Additional details/clarification on new health spending, including the new pharmacare plan **TBS PEMD**

A15. See additional back pocket pieces.

Q16. Additional details/clarification on new infrastructure spending **CPD-TBS**

A16. CPD to provide if required

**Question from Luan Ngo – email:**

Q17. One more question that I'd like to tack on relates to the assumed year-end savings. I noticed that the year-end savings target was increased to $1.2 billion for 2017-18.

a) Was there a section in the budget that discussed the policy reasons or assumptions behind this higher target for this year? If so, can you point it out to me?

b) Is this higher target maintained for the out-years as well?

c) Finally, in previous budgets, there were sections that indicated how much year-end savings were achieved by the government.

d) Is there data anywhere that points to the government's record in achieving its target for 2016-17? **PEMD-TBS**

A17.

## BACKPOCKET – NEW HEALTH SPENDING BREAKDOWN

### $7B Incremental health spending (vs. 2016 Budget Multi-year Plan)

| Total Expense (Consolidated) by Major Sector: | 2017-18 | 2018-19 | 2019-20 | 3-year Total |
|---|---|---|---|---|
| *($ Millions)* | | | | |
| **Hospitals** | *346.5* | *1,236.8* | *1,492.7* | *3,076.0* |
| *Incremental Hospital Operating Funding* | *322.5* | *628.3* | *896.2* | |
| *YoY Hospital Operating Funding Growth* | ***518.0*** | | | |
| *Includes Growth from 2016 and 2017 Budgets* | | | | |
| **Ontario Health Insurance Program** | *200.6* | *328.2* | *432.4* | *961.1* |
| **Drug Programs** | *245.7* | *499.6* | *656.9* | *1,402.1* |
| **Long-Term Care Homes** | *2.4* | *10.3* | *10.6* | *23.3* |
| **Community** | *(107.2)* | *27.9* | *50.2* | *(29.2)* |
| **Other Sector** | *298.1* | *445.3* | *726.2* | *1,469.6* |
| **Total** | *986.0* | *2,548.0* | *3,368.9* | ***6,903.0*** |

| Wait Time Investments (vs. 2016 Budget) | 2017-18 | 2018-19 | 2019-20 | 3-year Total |
|---|---|---|---|---|
| Specialized Care Provider | 43.5 | 81.9 | 119.8 | 245.1 |
| Hospitals - Foot, knee, hip, cataract, and priority pro( | 209.2 | 295.7 | 382.5 | 887.3 |
| Home and Community Care | 25.4 | 28.9 | 30.7 | 85.0 |
| Mental Health | 7.5 | 23.3 | 43.3 | 74.1 |
| **Total** | 285.5 | 429.7 | 576.3 | **1,291.5** |

# Backgrounder: MOHLTC PRRT Funding Breakdown

## Overview

The 2017 Budget and supporting communications products include several references to overarching health sector investments:

*A.* **$7 billion -** *The government is investing an additional $7 billion in health care over the next three years, compared to the 2016 Budget plan, to reduce wait times, provide access to care and to enhance the patient experience. With these new investments, growth in health spending will now average 3.3 per cent over the medium term.* [Chapter 4A]

B. **$11.5 billion** – *Ontario is increasing health care investments by $11.5 billion over the next three years. The 2017 balanced budget includes a new $7 billion booster shot to health care, building on the commitment made in the 2016 Budget.* [News Release]

C. **$1.3 billion –** *Over the next 3 years, the Province will invest $1.3 billion in additional funding to reduce wait times, including $890 million for key surgical and other priority procedures; $245 million to improve specialist access, including new digital solutions to streamline consults and eReferrals; $85 million in new home and community care services; and $74 million to provide more timely mental health services.* [Chapter 4A]

## Methodology

Below is a description of each calculation. The different funding references are not incremental the $7 and $11.5 billion are different methodologies for showing in-plan health sector expense growth (see tables on page 2).

A. **$7 billion -** is the cumulative 3 year growth between the 2016 Budget and 2017 Budget. This amount includes all in-year 2016-17 funding decisions. [1]

*B.* **$11.5 billion** – is the 3 year cumulative total of all investments in the 2017 Budget and 2016 Budget above 2016-17 Interim. These investments include previously approved growth through the 2016 Budget.

*C.* **$1.3 billion –** is the incremental new investment that MOHLTC has attributed to supporting wait times. These investments are a subset of the $7 billion and $11.5 billion references. This amount also includes funding referenced in other areas of the document e.g.:

- $518 million for hospitals
- $140 million for mental health and addictions services

[1] 2016-17 in-year decisions include: $140M for hospitals, $106M for the drug program, $95M for stem cell transplants, $30M First Nations Health Action Plan as well as other adjustments

# *Investments in Health Care in the Next Three Years – $7B and $11.5B methodologies*

| Investments in Health Care in the Next Three Years ($ billions) | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 3-year total |
|---|---|---|---|---|---|
| 2016-17 Budget (published, except 2019-20) | 51.8 | 52.8 | 53.7 | 54.7 | |
| **2017 Budget (2016-17 = interim 2016-17)** | **52.2** | **53.8** | **56.3** | **58.1** | |
| **Budget 2017 (multi-year plan) vs Budget 2016 (respective multi-year plans)** | | **1.0** | **2.6** | **3.4** | **7.0** |
| Budget 2017 (all out-years) vs Interim 2016-17 (constant) | | | | | |
| Year 1 investment (based on 2016-17 interim) | | 1.6 | 1.6 | 1.6 | |
| Year 2 investment (based on 2016-17 interim) | | | 2.5 | 2.5 | |
| Year 3 investment (based on 2016-17 interim) | | | | 1.8 | |
| **Budget 2017 (multi-year plan) vs Interim 2016-17 (constant)** | | **1.6** | **4.0** | **5.9** | **11.5** |