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To: Lewis, Brian (MOF) [Brian.Lewis@Ontario.ca]
CC: Tarin, Ghufan (MOF) [Ghufran.Tarin@ontario.ca]; Nicholson, Robert (MOF) [Robert.Nicholson@ontario.ca]; Williams, Mark (MOF) [Mark.Williams2@ontario.ca]
Subject: FES KMsv2 (3)
Date: Tuesday, October 25, 2016 14:37:48
Attachment 1: FES KMsv2 (3).docx

Brian

I changed revenue story to stronger 2015 tax revenue performance and strong 2016 housing market

Confidential

With/without revised deficit target

We are on track to {meeting our deficit target this year} and balancing the budget next year while helping to grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.

Earlier this fall, the Auditor General proposed that the government change its longstanding approach to the accounting policy for pension assets.

Quite unexpectedly, we found ourselves in the middle of an accounting disagreement ~~spute~~ between over how the government and previous Auditor Generals have accounted for pension assets over the past (14) years and the current Office of the Auditor General's view on how these assets should now be accounted for. and senior civil servants.

To provide clarity, we established an independent panel to review the issue and we are awaiting their report.

Given how recently this came to our attention, The government only has a preliminary estimate of the potential impact the Auditor General's new interpretation would have on the Province's finances. The pension plans haves not yet undergone an updated valuation this year to determine what the current impact would be of applying the accounting change to future years.

Out of respect for the Auditor General, and pending the outcome of the panel's review process, we are using the Auditor's proposed accounting approach and incorporating preliminary estimates of the fiscal impact into our numbers.

{The result is a higher deficit than originally planned for 2016-17 (\$4.8B).}

Even after accounting for the Auditor's new interpretation, we are on track to {meet out 2016-17 deficit target} and balance the budget in 2017-18 and 2018-19.

We are able to manageing the potential impact as a result ofthrough a combination of:

- Higher than expected revenue projections, mainly arising from a stronger 2015 tax revenue performance and a strong 2016 housing econmarket improve the omie-outlook for Ontario in 2016, and revised revenue assumptions

Confidential

- By using the reserve, which is included in the fiscal plan to protect the Province from unexpected changes in the numbers, funds

Before the Auditor raised this issue, for the eighth consecutive year we were forecasting a lower deficit target than outlined in the Budget.

Our prudent approach to fiscal management coupled with higher-stronger 2015 tax revenue performance and strength in the 2016 housing market than expected economic growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs.

This is our mid-year update for this year. We will provide an updated account of our fiscal plan in the 2017 Budget.

With current deficit target

Commented [ES1]: Comments as per the above

~~We are on track to meeting our deficit target this year and balancing the budget next year.~~

~~Our investments are helping to grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.~~

~~Since the 2016 Budget, the most significant change to our fiscal plan has resulted from the Auditor General's direction that the government changes its longstanding approach to accounting policy for pension assets.~~

~~Earlier this fall, we found ourselves quite unexpectedly in the middle of an accounting dispute between the Office of the Auditor General and senior civil servants.~~

~~To provide clarity, we established an independent panel to review the issue and we are awaiting their report.~~

~~The government only has a preliminary estimate of the potential impact the Auditor General's new interpretation would have on the Province's finances. The pension plan has not yet undergone a valuation this year.~~

~~Out of respect for the Auditor General and pending the outcome of the panel's review process, we are using the Auditor's preliminary estimates of the fiscal impact.~~

Confidential

Even after accounting for the Auditor's new interpretation, we are forecasting that we will meet our deficit target of \$4.3B this year and are on track to balance the budget in 2017-18 and 2018-19.

We are managing the potential impact through a combination of:

- revised revenue assumptions
- reserve funds

Formatted: Normal, No bullets or numbering

Before the Auditor raised this issue, for the eighth consecutive year we were forecasting a lower deficit target than outlined in the Budget.

Our prudent approach to fiscal management coupled with higher than expected growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs.

We will provide an updated account of our fiscal plan in the 2017 Budget

Revised Stronger revenue assumptions Outlook and Lower Interest on Debt Expense

What: Increase in taxation revenue and GBE revenue

Why:

— Real economic growth in 2015 and 2016 economic growth is expected to come in higher than anticipated at the time of the Budget.

Commented [ES2]: OEP to fill in?

- Stronger than anticipated personal and corporate income tax revenues, and continued strength in housing market which results in higher revenue as well.

Reserve funds Reserve

What: Using a portion of the reserve

Why:

Confidential

- This is an unexpected change to the accounting treatment for pension assets that we have encountered for the first time in 14 years.
- The reserve is there to mitigate any unforeseen changes that will impact the fiscal plan --, such as this one.
- We are more than halfway through the year, so we felt that this was an appropriate use of the reserve, rather than diverting spending away from our priorities such as health care hospitals, electricity relief, investments in school buildings, and moving ahead with adding new childcare spaces.
- Reserves are for unforeseen circumstances

DRAFT

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CC: Khalil, Linda (MOF) [Linda.Khalil@ontario.ca]
Subject: FW: FES Decks for FPC
Date: Wednesday, October 05, 2016 09:09:11
Attachment 1: FES_Fiscal_Outlook_v6.pptx
Attachment 2: FESReportingConsiderationsduetoPensions_v8.pptx

FYI – updated deck for FPC. Thanks

From: Schuurman, Tim (MOF)
Sent: October-04-16 9:11 PM
To: Thompson, Scott (MOF); Orencsak, Greg (TBS); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Mayman, Gadi (OFA); Lewis, Brian (MOF); Subrahmanyam, Sriram (MOF)
Cc: Birks, Ryan (MOF); McGrath, Tara (MOF); Lindquist, Emma (MOF); Jaikaran, Ronald (MOF); Pearce, Christopher (MOF); McLean, David (MOF); MacIntyre, Kyle (TBS); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); DeSouza, Jenarra (MOF); Law, Rex (TBS); Zhang, Christina (OFA); Tarin, Ghufuran (MOF)
Subject: FES Decks for FPC

Hello

Please find attached two decks for use at fpc tomorrow as part of the FES Update Part 3 agenda item.

- FES Fiscal Strategy

- Potential Options for fiscal Reporting as a result of the pensions accounting change in 15-16

We will also be walking in an updated FES Calendar.

Tim

2016 Fall Economic Statement: Finalizing the Fiscal Outlook



OFFICE OF ECONOMIC POLICY



Draft – October 4, 2016; 8:45 PM

Purpose

To review and **confirm the fiscal outlook and narrative** for the 2016 Fall Economic Statement.

This presentation includes:

1. The **proposed fiscal outlook** based on guiding **principles**
2. A description of the **items that have not been included** in the FES fiscal outlook and that will be addressed in PRRT and the 2017 Document processes
3. The proposed FES **fiscal narrative**

Principles for Determining a FES Fiscal Outlook

Since the 2016 Budget, **new information has been received and new spending commitments and approvals have been made** that need to be considered for the FES fiscal outlook.

The following **principles inform the FES fiscal outlook**.

Items to Include	Items Deferred to Document/PRRT
✓ The impact on revenue of a stronger 2015 housing market, the latest 2014 and 2015 tax assessment information, new federal agreements and slower nominal GDP growth, in part reflecting the Q2 Economic Accounts. ✓ All minuted TB/MBC expense approvals for 2016-17 (e.g., Hospital Pressures Funding), including contingency fund offsets. ✓ The multi-year impact of spending approvals related to new federal agreements and government decisions with associated legislative changes (e.g., Electricity Price Mitigation). ✓ Interest on debt savings in 2016–17, 2017–18, and 2018–19.	✗ Updates to overall asset optimization strategy ✗ Variability in the revenue outlook that will remain until the receipt of key information in December and January. ✗ The out-year impact of in-year TB/MBC expense approvals, as government direction is for funding to be managed or considered through the PRRT and 2017 Document processes (e.g., First Nations Health Action Plan, Autism and School Board Renewal Funding). ✗ The impact of new policy initiatives that do not have policy or financial approvals and are under consideration, such as Project Momentum – Auto Sector Investments, and additional health funding (e.g., Revised Drug Strategy).

2016 Budget to Potential FES Outlook

Taking into account the latest information and potential tools, the fiscal outlook delivers a slightly improved 2016–17 deficit relative to the 2016 Budget and maintains balance in 2017–18 and 2018–19.

Tools used to:

- Employ a cautious approach to the outlook in 2016-17
- Close the fiscal gap and maintain balance in 2017-18 and 2018-19

2016 Budget Fiscal Plan				Change			FES Outlook		
\$ Billions	16-17	17-18	18-19	16-17	17-18	18-19	16-17	17-18	18-19
Revenue	130.6	137.7	141.9	1.2	0.6	0.6	131.8	138.4	142.5
Expense									
Programs	120.9	122.4	124.1	–	–	–	120.9	122.4	124.1
In-Year Approvals	–	–	–	0.3	–	–	0.3	–	–
Child Care Expansion	–	–	–	–	–	–	–	–	–
Hospital Pressures Funding	–	–	–	0.1	–	–	0.1	–	–
Green Investment Fund	–	–	–	0.3	–	–	0.3	–	–
Electricity Price Mitigation*	–	–	–	0.3	0.9	0.9	0.3	0.9	0.9
Investment in Affordable Housing	–	–	–	0.1	–	–	0.1	–	–
PSE Strategic Investment Fund	–	–	–	0.2	0.3	0.1	0.2	0.3	0.1
Clean Water/Wastewater Fund	–	–	–	0.1	0.3	0.1	0.1	0.3	0.1
Contingency Fund	1.2	1.7	3.5	(0.3)	(0.3)	–	0.9	1.4	3.5
Total Programs	122.1	124.2	127.6	1.2	1.3	1.2	123.3	125.4	128.7
Interest on Debt	11.8	12.5	13.1	(0.2)	(0.6)	(0.5)	11.6	11.8	12.6
Total Expense	133.9	136.6	140.7	1.0	0.6	0.6	134.9	137.3	141.3
Reserve	1.0	1.1	1.2	–	–	–	1.0	1.1	1.2
Surplus/(Deficit)	(4.3)	0.0	0.0	0.2	(0.0)	(0.0)	(4.1)	0.0	0.0
Net Debt-to-GDP (%)	39.8	39.2	38.8				39.7	39.2	38.8

2016-17 includes reversal of 2016 Budget assumption of \$0.2 billion in unconditional federal transfers for home care.

2018-19 includes new revenue assumptions of \$0.4 billion.

Contingency fund drawdown in 2017–18 to offset some of Electricity Price Mitigation

Additional interest on debt savings taken on in the out years

FES Outlook

*Electricity Price Mitigation expense for 2017–18 and 2018–19 is net of Cap and Trade offsets of \$60 million per year.

Considerations for Updating the Fiscal Architecture

- It is important to note that the FES fiscal outlook only addresses immediate reporting requirements and **does not take into account all known revenue and expense risks the government is facing or account for potential information updates to come.**
 - For example, the FES outlook does not address **program expense pressures and potential unfunded initiatives** of up to \$1.9 billion in 2016–17, \$4.6 billion in 2017–18, and \$4.7 billion in 2018–19, related to items such as social assistance forecast pressures and potential rate increases; capital investments; compensation; and funding for service enhancements in the health sector.
 - Instead, these risks, together with potential revenue and expense tools, will need to be addressed as part of the upcoming PRRT and 2017 Document processes.
- With respect to the tools used:
 - Increasing projected revenue in 2018-19 **may require other tools to meet this target** in the absence of new unconditional federal revenue.
 - Offsetting some of Electricity Price Mitigation by drawing down the contingency fund in 2017-18 by \$0.3 billion, **leaves a total of \$1.4 billion for compensation and all other expense risks.**
 - Taking on **more interest on debt savings** in 2017-18 and 2018-19 may **limit flexibility** for the 2017 Document.

Potential FES Fiscal Narrative

- The government is dedicated to a fiscally sound approach to managing the Province's finances. This will help grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.
- An important aspect of the government's fiscal approach is its commitment to balance the budget in 2017–18. [Achieving balance will also put net-debt-to-GDP on a declining track and support the Province's commitment to return to pre-recession levels.]
- The government is sharing the benefits of Ontario's economic growth and its responsible approach to fiscal management by investing in things that matter most and that help Ontarians in their everyday lives, such as electricity rate relief to Ontario consumers, health care, and opening up additional child care spaces.
 - The government is committed to creating **100,000 new licensed child care spaces** within the next five years to help more working families in Ontario access quality, affordable child care. In this Document, the government is taking immediate action to move forward on this commitment by announcing a \$39 million capital investment for the [current] 2016-17 school year to help support the availability of an additional 3,400 spaces in schools beginning in September 2017.
- With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned for fiscal sustainability.
- Looking forward, the government is projecting a **deficit of \$4.1 billion in 2016–17, a return to balance in 2017–18, and continued balance in 2018–19**. In 2016–17, this reflects an improvement of \$0.2 billion compared with the deficit target projected in the *2016 Budget*.

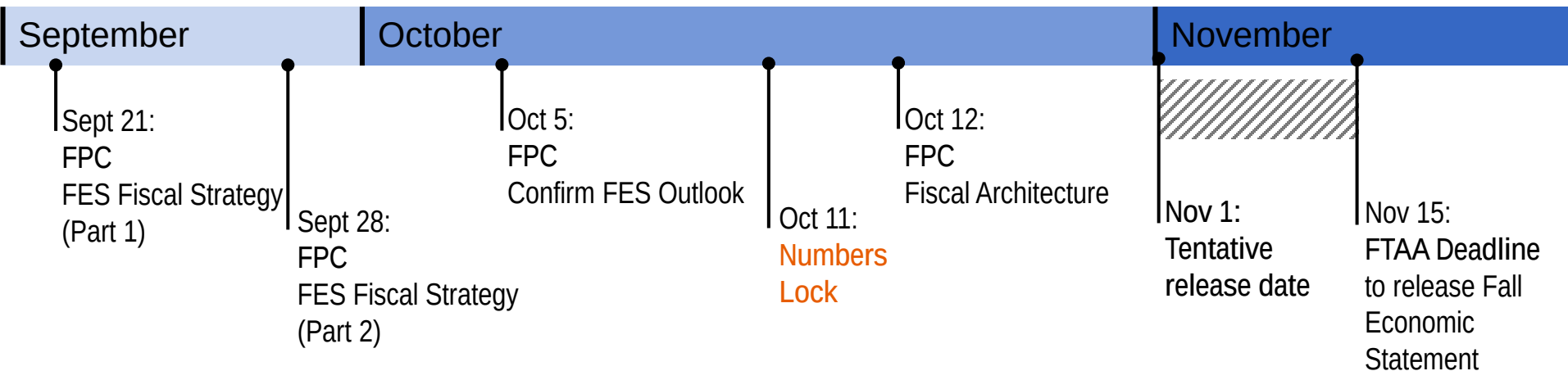
Given the government will be reviewing various tools to help close the gap between FES and the 2017 Document, the FES fiscal narrative may need to foreshadow potential actions. For example, this could include statements such as:

"The government is committed to protecting the gains made through prudent fiscal management and the strengthening of Ontario's economy, and will consider other potential tools to ensure Ontario can achieve fiscal sustainability while protecting the programs and services Ontarians rely on in their everyday lives."

Next Steps & Timeline

Next Steps

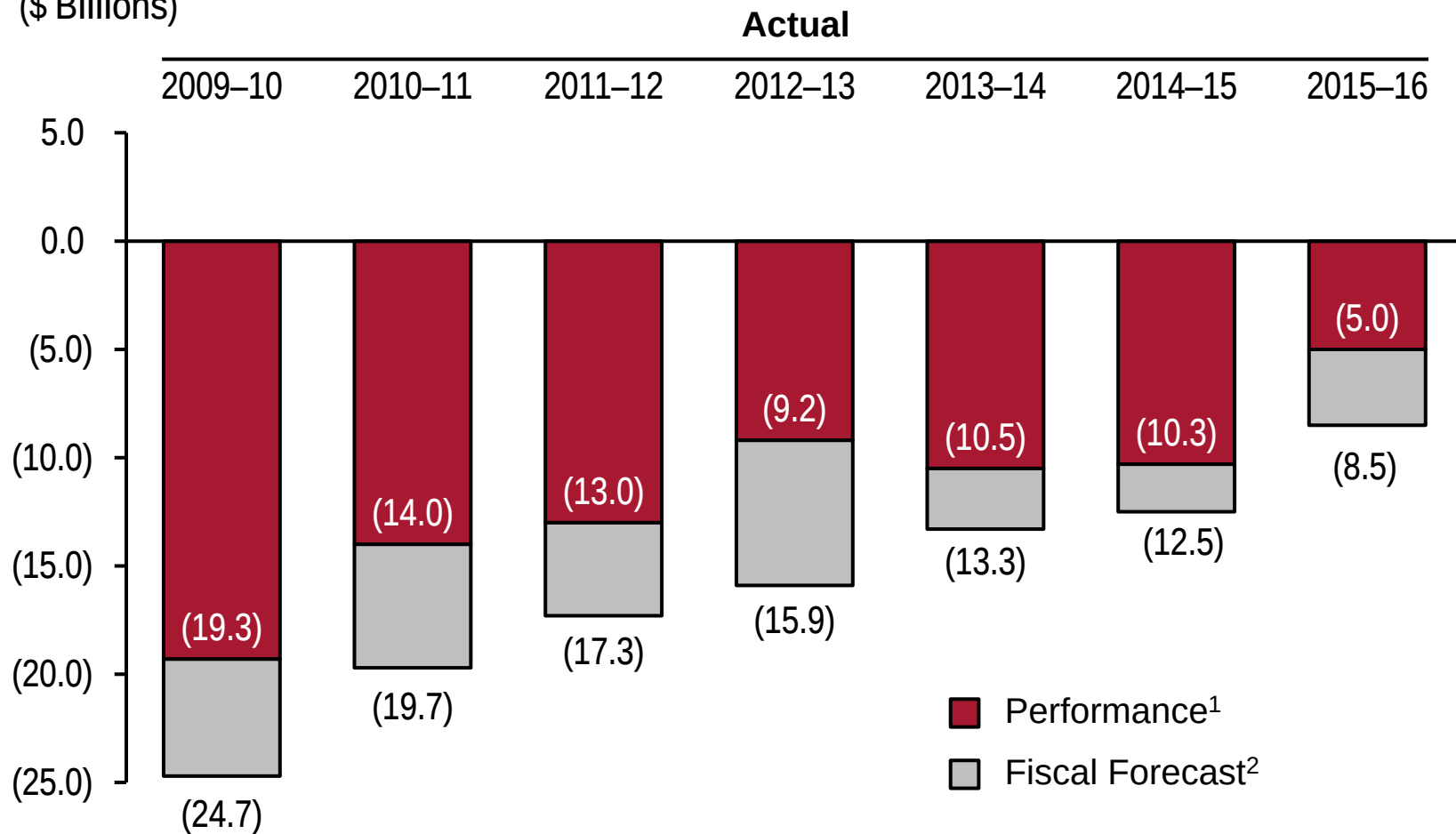
- October 5 FPC: Finalize FES fiscal outlook.
- October 11: To ensure adequate time to complete, review and print the document, **“numbers lock”** needs to occur three weeks before the release date.
- October 12 FPC: Once FES fiscal outlook is finalized, begin initial fiscal architecture discussions for the 2017 Document.



Appendix

Ontario's Record Against Deficit Targets

Fiscal Balance
(\$ Billions)

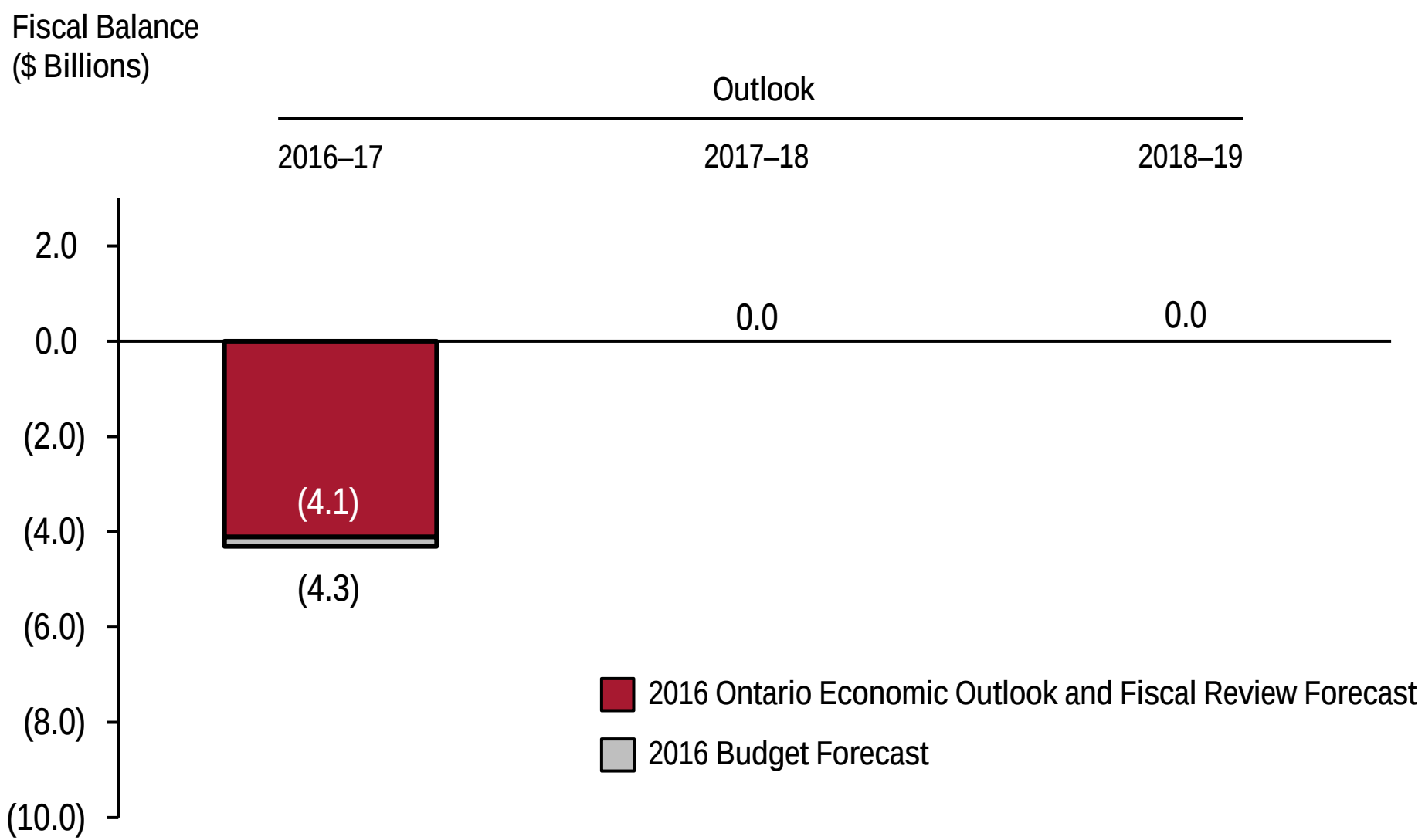


¹ For 2009–10 to 2015–16, actual results are presented.

² Forecast for 2009–10 is based on the 2009 *Ontario Economic Outlook and Fiscal Review*, 2010–11 to 2013–14 is based on the 2010 *Budget*, 2014–15 is based on the 2014 *Budget*, and 2015–16 is based on the 2015 *Budget*.

Source: Ontario Ministry of Finance.

Ontario's Plan to Eliminate the Deficit



Source: Ontario Ministry of Finance.

The FES Fiscal Outlook

Ontario's Medium-Term Fiscal Plan and Outlook (\$ Billions)

	Actual 2015–16	Current Outlook 2016–17	Medium-Term Outlook	
			2017–18	2018–19
Revenue	128.4	131.8	138.4	142.5
Expense				
Programs	122.4	123.3	125.4	128.7
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.9	137.3	141.3
Surplus/(Deficit) Before Reserve	(5.0)	(3.1)	1.1	1.2
Reserve	–	1.0	1.1	1.2
Surplus/(Deficit)	(5.0)	(4.1)	0.0	0.0

Note: Numbers may not add due to rounding.

2016-17 In-Year Fiscal Update (\$ Millions)

	Budget Plan	Current Outlook	In-Year Change
Revenue	130,589	131,821	1,232
Expense			
Programs	122,139	123,329	1,189
Interest on Debt	11,756	11,601	(155)
Total Expense	133,895	134,930	1,034
Reserve	1,000	1,000	–
Surplus/(Deficit)	(4,306)	(4,109)	198

Note: Numbers may not add due to rounding.

Reconciliation from September 28th FPC

\$ Billions	2016-17	2017-18	2018-19
September 28 th FPC Potential FES Outlook	(3.8)	0.0	0.0
Changes Since September 28 th			
Hospital Pressures Funding	0.1	–	–
Green Investment Fund (to be offset by cap and trade proceeds)	0.3	–	–
Additional Interest on Debt Savings	(0.1)	–	–
Strategic Investment Fund			
<i>Revenue</i>	(0.1)	(0.2)	0.1
<i>Program Expense</i>	(0.1)	(0.2)	0.1
Total Strategic Investment Fund	–	–	–
Total Changes Since September 28 th	0.3	–	–
Resulting Surplus/(Deficit)	(4.1)	0.0	0.0

2016 Fall Economic Statement: Reporting Considerations Related to 2015-16 Accounting Treatment of Pensions

Office *of the* Budget
MINISTRY *of* FINANCE

Draft – October 4, 2016 5:45 PM

Preliminary Estimate of Potential Impact of Change in Pension Asset Accounting

- The forecast below, which is based on an actuarial assessment at the end of January 2016, is subject to change based on economic and demographic factors, other new information, and potential changes to future agreements with plan sponsors (including on how the pension surpluses can be used).

Preliminary Estimate of Potential Impact on Fiscal Plan of Change in Pension Asset Accounting Treatment (\$ Millions)				
	Actual	Plan	Medium Term Outlook	
	2015-16	2016-17	2017-18	2018-19
<u>Forecasted as part of 2016 Budget</u>				
Teachers' Pension Plan Expense (Surplus)	110	(452)	(820)	(1,110)
OPSEU Pension Plan Expense	177	135	98	89
Healthcare of Ontario Pension Plan (HOOPP)	747	631	548	537
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	187	172	166
<u>Revised Forecast if Change in Pension Assets Treatment</u>				
Teachers' Pension Plan Expense	1,590	1,672	1,738	1,800
OPSEU Pension Plan Expense	211	229	234	241
Healthcare of Ontario Pension Plan (HOOPP)	747	631	1,058	1,120
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	224	242	262
<u>Potential Pressure on Fiscal Plan</u>				
Teachers' Pension Plan Expense	1,480	2,124	2,558	2,910
OPSEU Pension Plan Expense	34	94	136	152
Healthcare of Ontario Pension Plan (HOOPP)	-	-	510	583
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	-	37	70	96
Total Potential Pressure on the Fiscal Plan	1,514	2,255	3,274	3,742

Notes:

- CAATPP and HOOPP is forecasted to reach the asset position by 2016-17 and 2017-18 based on the respected expected long-term investment return of the plans. However, if actual investment return performance is better than the long-term expected return, these plans may reach asset position earlier.

Option 1: Footnote and Narrative Explanation of Accounting Impact

- The 2016 FES could show the 2015-16 results based on the time-limited legislated accounting for pension assets – as reported in the unaudited 2015-16 Public Accounts – while showing the 2016-17 to 2018-19 outlook based on the 2016 Budget approach to accounting for pension assets.
- A footnote would be added to the presentation of the medium-term outlook and net debt tables to clarify the difference in accounting treatment of pensions in 2015-16 versus the out-years.

Potential FES Outlook (\$ Billions)				
	Actual 2015-16	Current Outlook 2016-17	Medium-Term Outlook	
			2017-18	2018-19
Revenue	128.4	131.8	138.4	142.5
Expense				
Programs	122.4	120.9	122.4	124.1
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.9	137.2	141.3
Surplus/(Deficit) Before Reserve	(5.0)	(3.1)	1.1	1.2
Reserve	–	1.0	1.1	1.2
Surplus/(Deficit) ¹	(5.0)	(4.1)	0.0	0.0

¹ For 2015-16, reflects the financial results based on the time-limited legislated accounting for pension assets for jointly-sponsored pension plans. For 2016-17 and 2017-18, reflects accounting treatment for pension assets consistent with 2016 Budget.

The FES fiscal outlook narrative could be supplemented with an explanation of the potential impact on 2016-17 (and potentially 2017-18 and 2018-19) of a similar change in the accounting treatment of pension assets:

The Province is currently undertaking an independent review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans. Based on the legislated accounting treatment for pension assets for the 2015-16 Public Accounts, the government's projected deficit for 2016-17 could be \$2.3 billion higher, at \$5.4 billion (excluding the reserve).

Option 2: Show Accounting Change as Adjustment to Fiscal Outlook

- Alternatively, the government could present the 2016 FES fiscal outlook, adding an adjustment to show the potential net fiscal impact of extending the change in the accounting treatment for pension assets to 2016-17.
- The impact could also be shown for 2017-18 and 2018-19 (with a potential range), or the government could communicate that the impact is unknown at this time given that the Province is initiating a review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans.

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Surplus/(Deficit)	(5.0)	(4.1)	0.0	0.0
Potential Net Fiscal Impact of Extending Change in Accounting Treatment for Pension Assets	–	Up to (2.3)	Under review	Under review

Considerations and Key Decisions

Considerations

- In considering whether to build in the potential net fiscal impact of extending the change in accounting treatment for pension assets beyond 2015-16, the government may want to ensure that the deficit trajectory continues to show improvement and remains on track to balance in 2017-18.
- Consideration may need to be given to reporting a range for the potential impact, or to communicate that the potential impact is unknown given the ongoing review (in particular for 2017-18 and 2018-19).

Key Decisions

- Whether to discuss the potential impact of extending the change to the accounting treatment for pensions in narrative form, or show an actual adjustment to the fiscal outlook in the 2016 FES.
- Whether to amend the current FES fiscal outlook – through use of additional tools – to ensure a smooth trajectory to balance even with taking on the accounting change.

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Hospital Pressures Funding	–	–	–	0.1	–	–	0.1	–	–
Green Investment Fund	–	–	–	0.3	–	–	0.3	–	–
Electricity Price Mitigation*	–	–	–	0.3	0.9	0.9	0.3	0.9	0.9
Investment in Affordable Housing	–	–	–	0.1	–	–	0.1	–	–
PSE Strategic Investment Fund	–	–	–	0.2	0.3	0.1	0.2	0.3	0.1
Clean Water/Wastewater Fund	–	–	–	0.1	0.3	0.1	0.1	0.3	0.1
Contingency Fund	1.2	1.7	3.5	(0.3)	(0.3)	–	0.9	1.4	3.5
Total Programs	122.1	124.2	127.6	1.2	1.3	1.2	123.3	125.4	128.7
Interest on Debt	11.8	12.5	13.1	(0.2)	(0.6)	(0.5)	11.6	11.8	12.6
Total Expense	133.9	136.6	140.7	1.0	0.6	0.6	134.9	137.3	141.3
Reserve	1.0	1.1	1.2	–	–	–	1.0	1.1	1.2
Surplus/(Deficit)	(4.3)	0.0	0.0	0.2	(0.0)	(0.0)	(4.1)	0.0	0.0
Net Debt-to-GDP (%)	39.8	39.2	38.8				39.7	39.2	38.8

2016-17 includes reversal of 2016 Budget assumption of \$0.2 billion in unconditional federal transfers for home care.

2018-19 includes new revenue assumptions of \$0.4 billion.

Contingency fund drawdown in 2017–18 to offset some of Electricity Price Mitigation

Additional interest on debt savings taken on in the out years

FES Outlook

*Electricity Price Mitigation expense for 2017–18 and 2018–19 is net of Cap and Trade offsets of \$60 million per year.

Considerations for Updating the Fiscal Architecture

- It is important to note that the FES fiscal outlook only addresses immediate reporting requirements and **does not take into account all known revenue and expense risks the government is facing or account for potential information updates to come.**
 - For example, the FES outlook does not address **program expense pressures and potential unfunded initiatives** of up to \$1.9 billion in 2016–17, \$4.6 billion in 2017–18, and \$4.7 billion in 2018–19, related to items such as social assistance forecast pressures and potential rate increases; capital investments; compensation; and funding for service enhancements in the health sector.
 - Instead, these risks, together with potential revenue and expense tools, will need to be addressed as part of the upcoming PRRT and 2017 Document processes.
- With respect to the tools used:
 - Increasing projected revenue in 2018-19 **may require other tools to meet this target** in the absence of new unconditional federal revenue.
 - Offsetting some of Electricity Price Mitigation by drawing down the contingency fund in 2017-18 by \$0.3 billion, **leaves a total of \$1.4 billion for compensation and all other expense risks.**
 - Taking on **more interest on debt savings** in 2017-18 and 2018-19 may **limit flexibility** for the 2017 Document.

Potential FES Fiscal Narrative

- The government is dedicated to a fiscally sound approach to managing the Province's finances. This will help grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.
- An important aspect of the government's fiscal approach is its commitment to balance the budget in 2017–18. [Achieving balance will also put net-debt-to-GDP on a declining track and support the Province's commitment to return to pre-recession levels.]
- The government is sharing the benefits of Ontario's economic growth and its responsible approach to fiscal management by investing in things that matter most and that help Ontarians in their everyday lives, such as electricity rate relief to Ontario consumers, health care, and opening up additional child care spaces.
 - The government is committed to creating **100,000 new licensed child care spaces** within the next five years to help more working families in Ontario access quality, affordable child care. In this Document, the government is taking immediate action to move forward on this commitment by announcing a \$39 million capital investment for the [current] 2016-17 school year to help support the availability of an additional 3,400 spaces in schools beginning in September 2017.
- With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned for fiscal sustainability.
- Looking forward, the government is projecting a **deficit of \$4.1 billion in 2016–17, a return to balance in 2017–18, and continued balance in 2018–19**. In 2016–17, this reflects an improvement of \$0.2 billion compared with the deficit target projected in the *2016 Budget*.

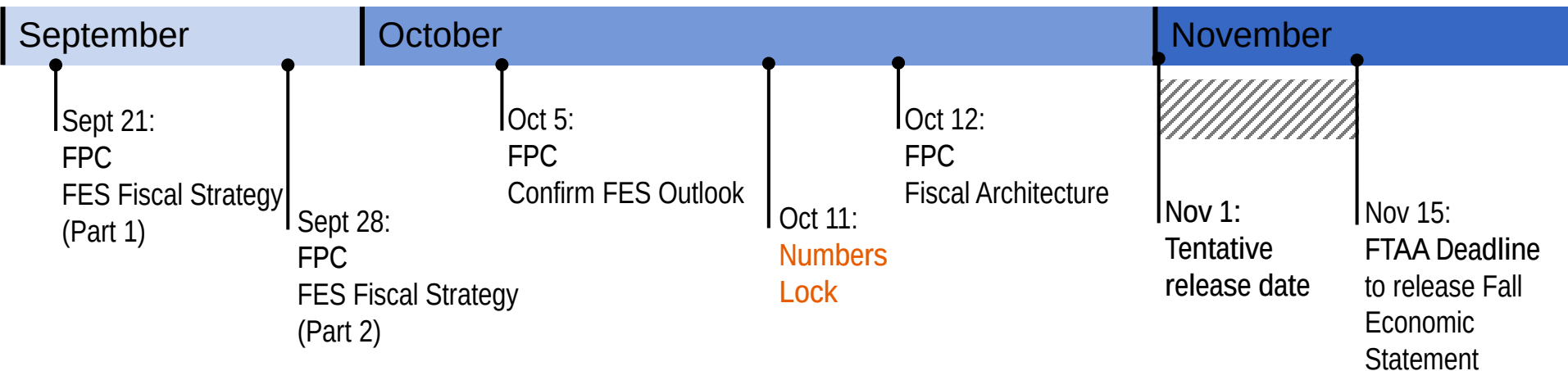
Given the government will be reviewing various tools to help close the gap between FES and the 2017 Document, the FES fiscal narrative may need to foreshadow potential actions. For example, this could include statements such as:

"The government is committed to protecting the gains made through prudent fiscal management and the strengthening of Ontario's economy, and will consider other potential tools to ensure Ontario can achieve fiscal sustainability while protecting the programs and services Ontarians rely on in their everyday lives."

Next Steps & Timeline

Next Steps

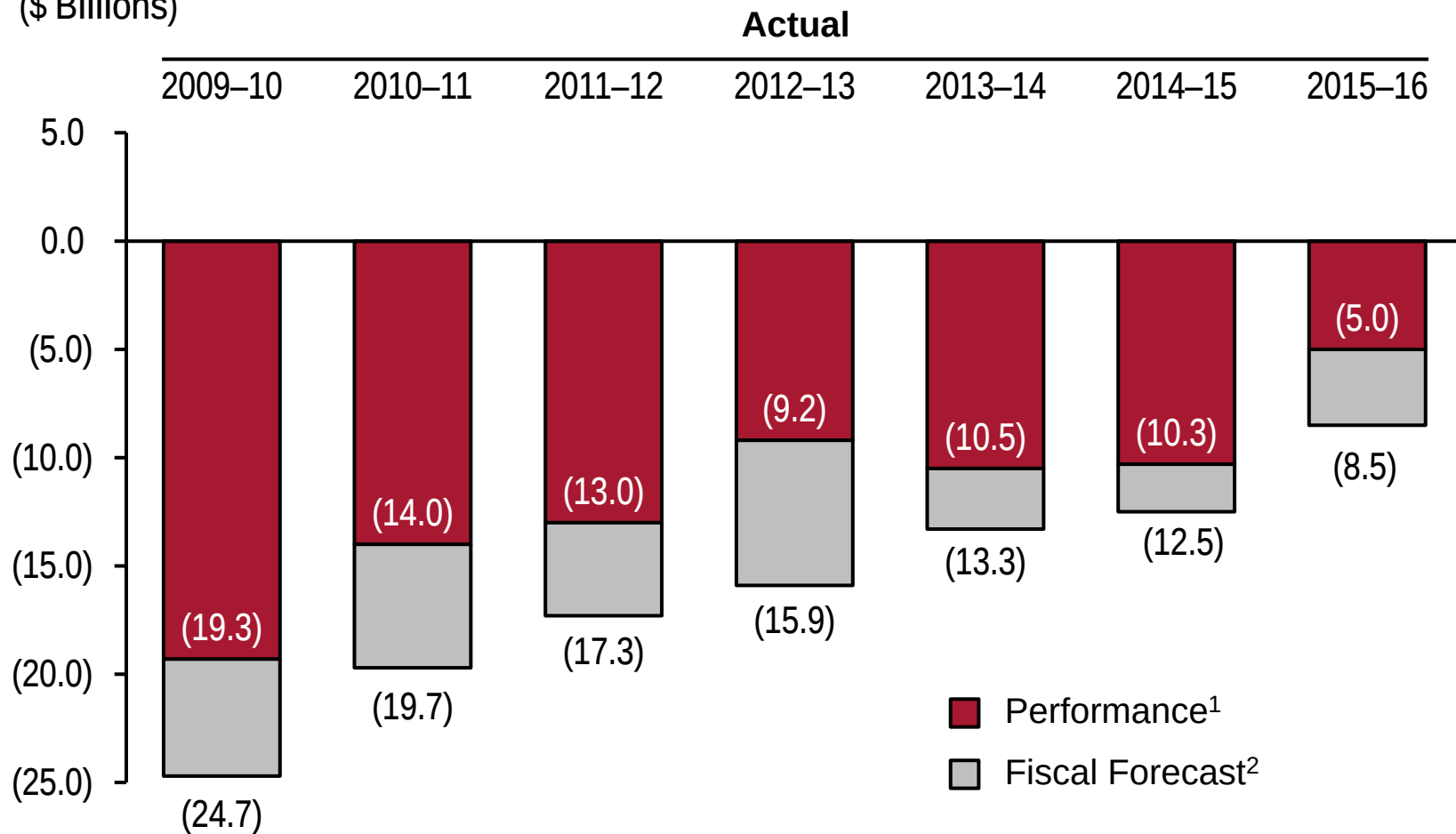
- October 5 FPC: Finalize FES fiscal outlook.
- October 11: To ensure adequate time to complete, review and print the document, **“numbers lock”** needs to occur three weeks before the release date.
- October 12 FPC: Once FES fiscal outlook is finalized, begin initial fiscal architecture discussions for the 2017 Document.



Appendix

Ontario's Record Against Deficit Targets

Fiscal Balance
(\$ Billions)

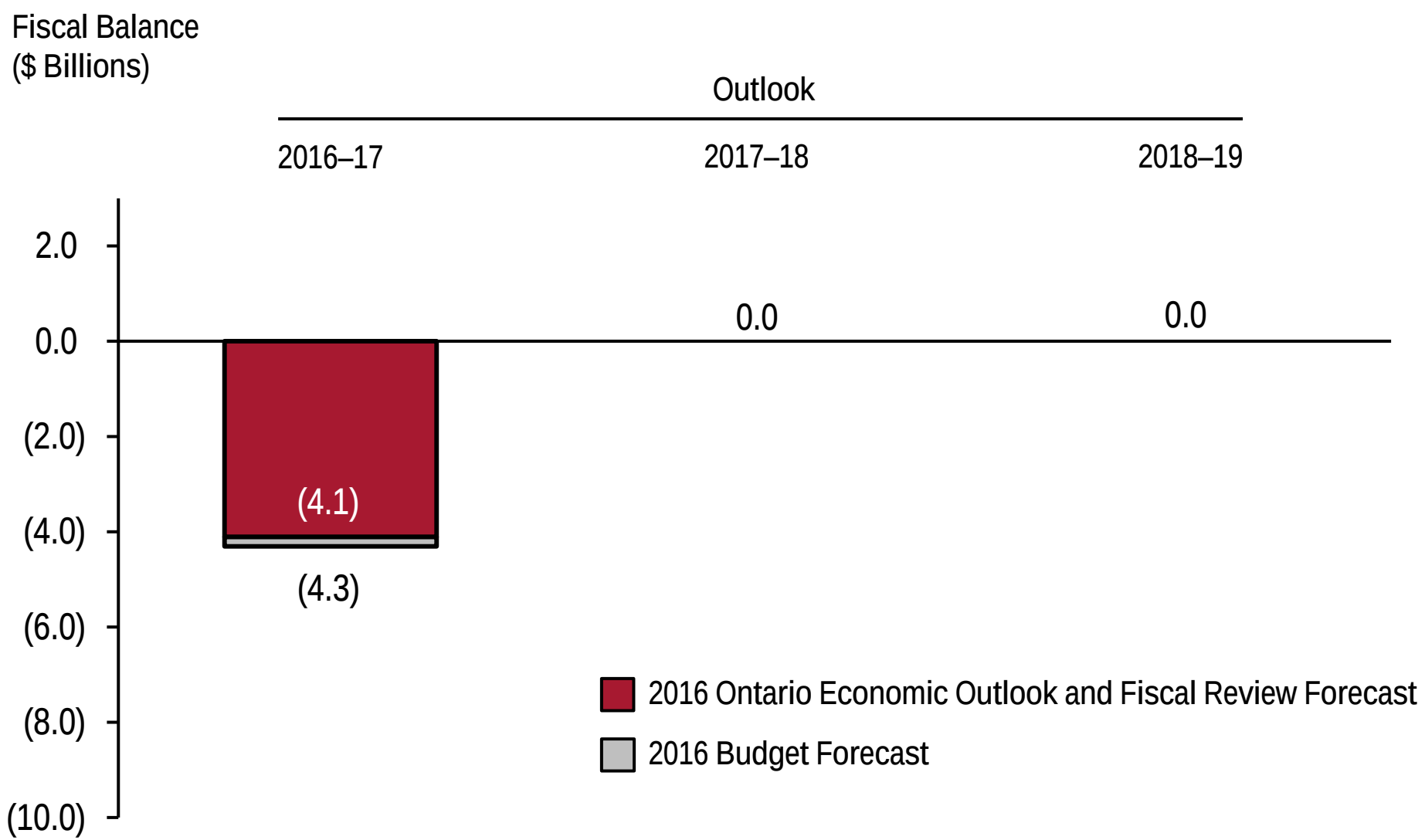


¹ For 2009–10 to 2015–16, actual results are presented.

² Forecast for 2009–10 is based on the 2009 *Ontario Economic Outlook and Fiscal Review*, 2010–11 to 2013–14 is based on the 2010 *Budget*, 2014–15 is based on the 2014 *Budget*, and 2015–16 is based on the 2015 *Budget*.

Source: Ontario Ministry of Finance.

Ontario's Plan to Eliminate the Deficit



Source: Ontario Ministry of Finance.

The FES Fiscal Outlook

Ontario's Medium-Term Fiscal Plan and Outlook (\$ Billions)

	Actual 2015–16	Current Outlook 2016–17	Medium-Term Outlook	
			2017–18	2018–19
Revenue	128.4	131.8	138.4	142.5
Expense				
Programs	122.4	123.3	125.4	128.7
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.9	137.3	141.3
Surplus/(Deficit) Before Reserve	(5.0)	(3.1)	1.1	1.2
Reserve	–	1.0	1.1	1.2
Surplus/(Deficit)	(5.0)	(4.1)	0.0	0.0

Note: Numbers may not add due to rounding.

2016-17 In-Year Fiscal Update (\$ Millions)

	Budget Plan	Current Outlook	In-Year Change
Revenue	130,589	131,821	1,232
Expense			
Programs	122,139	123,329	1,189
Interest on Debt	11,756	11,601	(155)
Total Expense	133,895	134,930	1,034
Reserve	1,000	1,000	–
Surplus/(Deficit)	(4,306)	(4,109)	198

Note: Numbers may not add due to rounding.

Reconciliation from September 28th FPC

\$ Billions	2016-17	2017-18	2018-19
September 28 th FPC Potential FES Outlook	(3.8)	0.0	0.0
Changes Since September 28 th			
Hospital Pressures Funding	0.1	–	–
Green Investment Fund (to be offset by cap and trade proceeds)	0.3	–	–
Additional Interest on Debt Savings	(0.1)	–	–
Strategic Investment Fund			
<i>Revenue</i>	(0.1)	(0.2)	0.1
<i>Program Expense</i>	(0.1)	(0.2)	0.1
Total Strategic Investment Fund	–	–	–
Total Changes Since September 28 th	0.3	–	–
Resulting Surplus/(Deficit)	(4.1)	0.0	0.0

2016 Fall Economic Statement: Reporting Considerations Related to 2015-16 Accounting Treatment of Pensions

Office *of the* Budget
MINISTRY *of* FINANCE

Draft – October 4, 2016 5:45 PM

Preliminary Estimate of Potential Impact of Change in Pension Asset Accounting

- The forecast below, which is based on an actuarial assessment at the end of January 2016, is subject to change based on economic and demographic factors, other new information, and potential changes to future agreements with plan sponsors (including on how the pension surpluses can be used).

Preliminary Estimate of Potential Impact on Fiscal Plan of Change in Pension Asset Accounting Treatment (\$ Millions)

	Actual	Plan	Medium Term Outlook	
	2015-16	2016-17	2017-18	2018-19
<u>Forecasted as part of 2016 Budget</u>				
Teachers' Pension Plan Expense (Surplus)	110	(452)	(820)	(1,110)
OPSEU Pension Plan Expense	177	135	98	89
Healthcare of Ontario Pension Plan (HOOPP)	747	631	548	537
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	187	172	166
<u>Revised Forecast if Change in Pension Assets Treatment</u>				
Teachers' Pension Plan Expense	1,590	1,672	1,738	1,800
OPSEU Pension Plan Expense	211	229	234	241
Healthcare of Ontario Pension Plan (HOOPP)	747	631	1,058	1,120
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	224	242	262
<u>Potential Pressure on Fiscal Plan</u>				
Teachers' Pension Plan Expense	1,480	2,124	2,558	2,910
OPSEU Pension Plan Expense	34	94	136	152
Healthcare of Ontario Pension Plan (HOOPP)	-	-	510	583
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	-	37	70	96
Total Potential Pressure on the Fiscal Plan	1,514	2,255	3,274	3,742

Notes:

- CAATPP and HOOPP is forecasted to reach the asset position by 2016-17 and 2017-18 based on the respected expected long-term investment return of the plans. However, if actual investment return performance is better than the long-term expected return, these plans may reach asset position earlier.

Option 1: Footnote and Narrative Explanation of Accounting Impact

- The 2016 FES could show the 2015-16 results based on the time-limited legislated accounting for pension assets – as reported in the unaudited 2015-16 Public Accounts – while showing the 2016-17 to 2018-19 outlook based on the 2016 Budget approach to accounting for pension assets.
- A footnote would be added to the presentation of the medium-term outlook and net debt tables to clarify the difference in accounting treatment of pensions in 2015-16 versus the out-years.

Potential FES Outlook (\$ Billions)				
	Actual 2015-16	Current Outlook 2016-17	Medium-Term Outlook 2017-18	Outlook 2018-19
Revenue	128.4	131.8	138.4	142.5
Expense				
Programs	122.4	120.9	122.4	124.1
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.9	137.2	141.3
Surplus/(Deficit) Before Reserve	(5.0)	(3.1)	1.1	1.2
Reserve	–	1.0	1.1	1.2
Surplus/(Deficit) ¹	(5.0)	(4.1)	0.0	0.0

¹ For 2015-16, reflects the financial results based on the time-limited legislated accounting for pension assets for jointly-sponsored pension plans. For 2016-17 and 2017-18, reflects accounting treatment for pension assets consistent with 2016 Budget.

The FES fiscal outlook narrative could be supplemented with an explanation of the potential impact on 2016-17 (and potentially 2017-18 and 2018-19) of a similar change in the accounting treatment of pension assets:

The Province is currently undertaking an independent review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans. Based on the legislated accounting treatment for pension assets for the 2015-16 Public Accounts, the government's projected deficit for 2016-17 could be \$2.3 billion higher, at \$5.4 billion (excluding the reserve).

Option 2: Show Accounting Change as Adjustment to Fiscal Outlook

- Alternatively, the government could present the 2016 FES fiscal outlook, adding an adjustment to show the potential net fiscal impact of extending the change in the accounting treatment for pension assets to 2016-17.
- The impact could also be shown for 2017-18 and 2018-19 (with a potential range), or the government could communicate that the impact is unknown at this time given that the Province is initiating a review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans.

Potential FES Outlook (\$ Billions)				
	Actual 2015-16	Current Outlook 2016-17	Medium-Term Outlook	
			2017-18	2018-19
Revenue	128.4	131.8	138.4	142.5
Expense				
Programs	122.4	120.9	122.4	124.1
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.9	137.2	141.3
Surplus/(Deficit) before Reserve	(5.0)	(3.1)	1.1	1.2
Reserve	–	1.0	1.1	1.2
Surplus/(Deficit)	(5.0)	(4.1)	0.0	0.0
Potential Net Fiscal Impact of Extending Change in Accounting Treatment for Pension Assets	–	Up to (2.3)	Under review	Under review

Considerations and Key Decisions

Considerations

- In considering whether to build in the potential net fiscal impact of extending the change in accounting treatment for pension assets beyond 2015-16, the government may want to ensure that the deficit trajectory continues to show improvement and remains on track to balance in 2017-18.
- Consideration may need to be given to reporting a range for the potential impact, or to communicate that the potential impact is unknown given the ongoing review (in particular for 2017-18 and 2018-19).

Key Decisions

- Whether to discuss the potential impact of extending the change to the accounting treatment for pensions in narrative form, or show an actual adjustment to the fiscal outlook in the 2016 FES.
- Whether to amend the current FES fiscal outlook – through use of additional tools – to ensure a smooth trajectory to balance even with taking on the accounting change.

From: McGrath, Tara (MOF) []
To: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]
CC: Lindquist, Emma (MOF) [Emma.Lindquist@ontario.ca]
Subject: FW: FES Fiscal Strategy #4
Date: Tuesday, October 11, 2016 11:08:47
Attachment 1: FES_FiscalOutlook_WithPensionsv4.pptx
Attachment 2: image003.png

Hey Bruno,

We're assuming this has travelled down to you. It's the latest on the FES fiscal strategy, and may be used this week (there's no FPC meeting planned this week, but there may be some sort of FPC "light").

You'll note that this still carries the previous revenue outlook, and not the one that Brian shared with the DM last week. We've flagged this to Tim, as I'm not sure to what extent senior management is actually aware that the bottom-line numbers between the revenue forecasts is different (the high level messaging seems to be that the forecast is essentially the same, just that the composition is different). Obviously as we discussed last week, with the bottom-lines actually being different, we would need to adjust the rest of the fiscal plan to accommodate this.

Have you been able to follow up with Paul/Brian on this?

On an unrelated note, we're wondering if there are any details that would be changing for you between the 2015-16 revenue outlook shown in the 2015-16 Public Accounts and what will be shown in the 2016 FES (i.e. as a result of any accounting/restatement changes?). While we've gotten the high level details on revenue from OPCD, we actually haven't been able to get the detailed breakdown for revenue for 2015-16 and 2014-15, as shown in PAs, and we were hoping that this something we'll be able to get from you as part of FES so that we can complete our backgrounds associated with the PAs.

Let us know if you want to discuss. Thanks,

Tara

From: Schuurman, Tim (MOF)

Sent: October-07-16 7:00 PM

To: Thompson, Scott (MOF); Orencsak, Greg (TBS); Hughes, Karen (TBS); Veinot, Cindy (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); Subrahmanyam, Sriram (MOF); Mayman, Gadi (OFA)

Cc: McLean, David (MOF); Pearce, Christopher (MOF); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Birks, Ryan (MOF); DeSouza, Jenarra (MOF); McGrath, Tara (MOF); Lindquist, Emma (MOF); MacIntyre, Kyle (TBS); Jaikaran, Ronald (MOF)

Subject: FES Fiscal Strategy #4

Hello

Please find attached an updated FES fiscal strategy document, that takes into account the feedback from both Wednesday's FPC and the Minister's briefing yesterday, to move it along to the next stage of discussion. This could be considered an agenda item for upcoming FPC-lite meetings next week or other venues to move the decision-making forward.

Happy to take feedback or comments.

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

2016 Fall Economic Statement: Fiscal Outlook and Options for the Accounting Treatment of Pensions



Draft – October 7, 2016 2:30 PM

Purpose

To review the proposed fiscal outlook for the 2016 Fall Economic Statement (FES) and consider options for addressing the potential impact of the change in pension asset accounting.

This presentation includes:

1. An overview of the current fiscal outlook for FES
2. A summary of the potential fiscal impact of the change in pension asset accounting
3. Options for creating room in the fiscal plan to accommodate the accounting change while still maintaining the government's 2016 Budget fiscal targets
4. A summary of key considerations and decisions

Principles for Determining a FES Fiscal Outlook

Since the 2016 Budget, **new information has been received and new spending commitments and approvals have been made** that need to be considered for the FES fiscal outlook.

The following **principles inform the current FES fiscal outlook.**

Items to Include	Items Deferred to Document/PRRT
✓ The impact on revenue of a stronger 2015 housing market, the latest 2014 and 2015 tax assessment information, new federal agreements and slower nominal GDP growth, in part reflecting the Q2 Economic Accounts. ✓ All minuted TB/MBC expense approvals for 2016-17 (e.g., Hospital Pressures Funding), including contingency fund offsets. ✓ The multi-year impact of spending approvals related to new federal agreements and government decisions with associated legislative changes (e.g., Electricity Price Mitigation). ✓ Interest on debt savings in 2016–17, 2017–18, and 2018–19.	✗ Updates to overall asset optimization strategy. ✗ Variability in the revenue outlook that will remain until the receipt of key information in December and January. ✗ The out-year impact of in-year TB/MBC expense approvals, as government direction is for funding to be managed or considered through the PRRT and 2017 Document processes (e.g., First Nations Health Action Plan, Autism and School Board Renewal Funding). ✗ The impact of new policy initiatives that do not have policy or financial approvals and are under consideration, such as Project Momentum – Auto Sector Investments, and additional health funding (e.g., Revised Drug Strategy).

2016 Budget to Potential FES Outlook

Taking into account the latest information and potential tools, the current fiscal outlook delivers a slightly improved 2016-17 deficit relative to the 2016 Budget targets and maintains balance in 2017-18 and 2018-19.

Tools used to:

- Employ a cautious approach to the outlook in 2016-17
- Close the fiscal gap and maintain balance in 2017-18 and 2018-19

2016 Budget Fiscal Plan				Change			FES Outlook		
\$ Billions	16-17	17-18	18-19	16-17	17-18	18-19	16-17	17-18	18-19
Revenue	130.6	137.7	141.9	1.2	0.6	0.6	131.8	138.4	142.5
Expense									
Programs	120.9	122.4	124.1	–	–	–	120.9	122.4	124.1
In-Year Approvals	–	–	–	0.3	–	–	0.3	–	–
Child Care Expansion	–	–	–	–	–	–	–	–	–
Hospital Pressures Funding	–	–	–	0.1	–	–	0.1	–	–
Green Investment Fund	–	–	–	0.3	–	–	0.3	–	–
Electricity Price Mitigation*	–	–	–	0.3	0.9	0.9	0.3	0.9	0.9
Investment in Affordable Housing	–	–	–	0.1	–	–	0.1	–	–
PSE Strategic Investment Fund	–	–	–	0.2	0.3	0.1	0.2	0.3	0.1
Clean Water/Wastewater Fund	–	–	–	0.1	0.3	0.1	0.1	0.3	0.1
Contingency Fund	1.2	1.7	3.5	(0.3)	(0.3)	–	0.9	1.4	3.5
Total Programs	122.1	124.2	127.6	1.2	1.3	1.2	123.3	125.4	128.7
Interest on Debt	11.8	12.5	13.1	(0.2)	(0.6)	(0.5)	11.6	11.8	12.6
Total Expense	133.9	136.6	140.7	1.0	0.6	0.6	134.9	137.3	141.3
Reserve	1.0	1.1	1.2	–	–	–	1.0	1.1	1.2
Surplus/(Deficit)	(4.3)	0.0	0.0	0.2	(0.0)	(0.0)	(4.1)	0.0	0.0
Net Debt-to-GDP (%)**	41.1	40.5	40.1				41.1	40.5	40.0

2016-17 includes reversal of 2016 Budget assumption of \$0.2 billion in unconditional federal transfers for home care. 2018-19 includes new revenue assumptions of \$0.4 billion.

Contingency Fund drawdown in 2017–18 to offset some of Electricity Price Mitigation.

Additional interest on debt savings taken on in the out years.

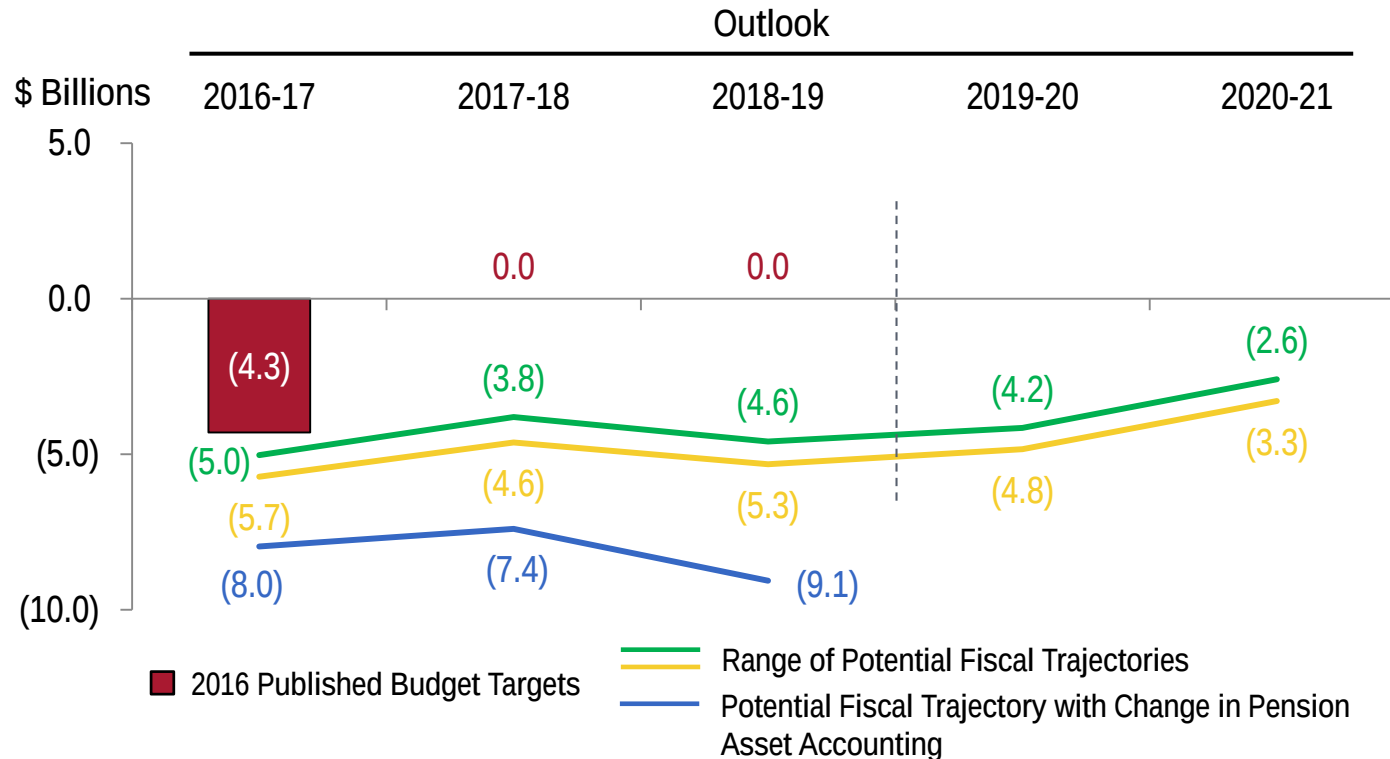
FES Outlook

*Electricity Price Mitigation expense for 2017–18 and 2018–19 is net of Cap and Trade offsets of \$60 million per year.

** Includes impact of carrying forward net debt change from 2015-16 Public Accounts.

Fiscal Architecture Considerations

- It is important to note that the potential FES fiscal outlook only addresses immediate reporting requirements and **does not take into account all known revenue and expense risks the government is facing or account for potential information updates to come.**



For example, the potential FES outlook does not address:

- Program expense pressures and potential unfunded initiatives of up to \$1.9 billion in 2016–17, \$4.6 billion in 2017–18, and \$4.7 billion in 2018–19
- The potential impact of the change in pension asset accounting treatment reported in the 2015-16 Public Accounts.

- Use of tools/levers as part of the FES fiscal strategy could **impact the flexibility the government has to address the broader fiscal gap** as part of PRRT and Document planning.

Potential Impact of Change in Pension Asset Accounting

- The 2015-16 Public Accounts reported results based on a time-limited legislated change to pension asset accounting. There is a need to consider options for addressing the potential impact of this change in the FES fiscal outlook.
- The forecast below, which is based on an actuarial assessment at the end of January 2016, is subject to change based on economic and demographic factors, other new information, and potential changes to future agreements with plan sponsors (including on how the pension surpluses can be used).

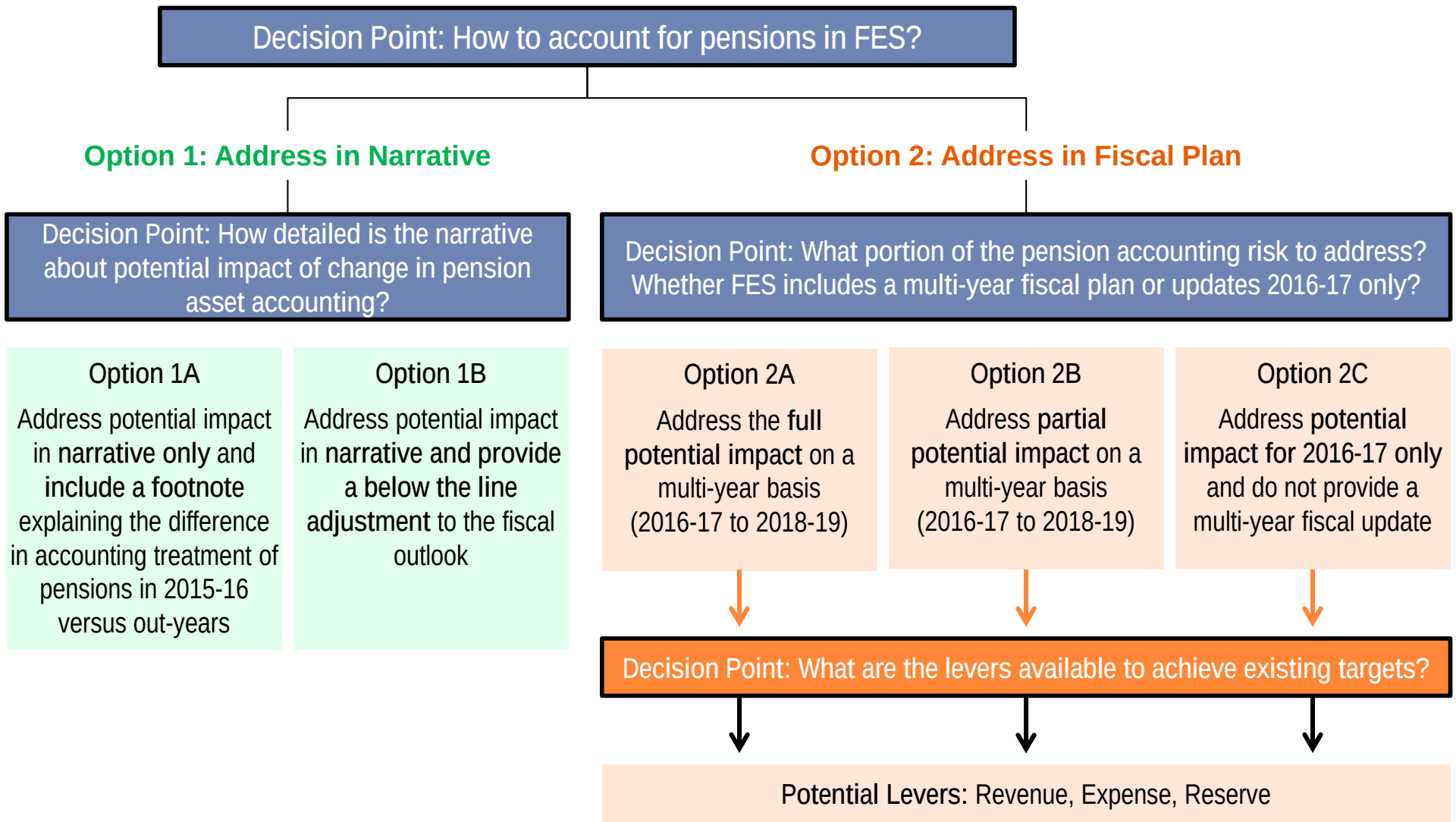
Preliminary Estimate of Potential Impact on Fiscal Plan of Change in Pension Asset Accounting Treatment (\$ Millions)

	Actual 2015-16	Plan 2016-17	Medium Term Outlook	
			2017-18	2018-19
A Forecasted as part of 2016 Budget				
Teachers' Pension Plan Expense/ (Surplus)	110	(452)	(820)	(1,110)
OPSEU Pension Plan Expense	177	135	98	89
Healthcare of Ontario Pension Plan (HOOPP)	747	631	548	537
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	187	172	166
B Potential Pressure on Fiscal Plan				
<i>Teachers' Pension Plan Expense</i>	1,480	2,123	2,559	2,910
<i>OPSEU Pension Plan Expense</i>	34	94	136	152
<i>Healthcare of Ontario Pension Plan (HOOPP)</i>	-	-	8	583
<i>Colleges of Applied Arts and Technology Pension Plan (CAATPP)</i>	-	22	73	98
Total Potential Pressure on the Fiscal Plan	1,514	2,240	2,775	3,744
C=B-A Revised Forecast if Change in Pension Assets Treatment				
Teachers' Pension Plan Expense	1,590	1,671	1,739	1,800
OPSEU Pension Plan Expense	211	229	234	241
Healthcare of Ontario Pension Plan (HOOPP)	747	631	556	1,120
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	209	245	264

Note: CAATPP and HOOPP is forecasted to reach the asset position by 2016-17 and 2017-18 based on the respected expected long-term investment return of the plans. However, if actual investment return performance is better than the long-term expected return, these plans may reach asset position earlier.

Key Decision Point: Accounting Treatment of Pensions

The government has a number of key decisions to consider for determining the fiscal outlook for the Fall Economic Statement:



Option 1a: Footnote and Narrative Explanation of Accounting Impact

- The 2016 FES could show the 2015-16 results based on the time-limited legislated accounting for pension assets while showing the 2016-17 to 2018-19 outlook based on the 2016 Budget approach to accounting for pension assets.
- A footnote would be added to the presentation of the medium-term outlook and net debt tables to clarify the difference in accounting treatment of pensions in 2015-16 versus the out-years.

Potential FES Outlook (\$ Billions)				
	Actual 2015-16	Current Outlook 2016-17	Medium-Term Outlook	
			2017-18	2018-19
Revenue	128.4	131.8	138.4	142.5
Expense				
Programs	122.4	123.3	125.4	128.7
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.9	137.3	141.3
Surplus/(Deficit) Before Reserve	(5.0)	(3.1)	1.1	1.2
Reserve	—	1.0	1.1	1.2
Surplus/(Deficit) ¹	(5.0)	(4.1)	0.0	0.0

¹ For 2015-16, reflects the financial results based on the time-limited legislated accounting for pension assets for jointly-sponsored pension plans. For 2016-17 and 2017-18, reflects accounting treatment for pension assets consistent with 2016 Budget.

The FES fiscal outlook narrative could be supplemented with an explanation of the potential impact on 2016-17 (and potentially 2017-18 and 2018-19) of a similar change in the accounting treatment of pension assets:

The Province is currently undertaking an independent review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans. Based on the legislated accounting treatment for pension assets for the 2015-16 Public Accounts, the government's projected deficit for 2016-17 could be \$2.2 billion higher, at \$5.3 billion (excluding the reserve).

Option 1b: Show Accounting Change as Adjustment to Fiscal Outlook

- Alternatively, the government could present the 2016 FES fiscal outlook, adding an adjustment to show the potential net fiscal impact of extending the change in the accounting treatment for pension assets to 2016-17.
- The impact could also be shown for 2017-18 and 2018-19 (with a potential range), or the government could communicate that the impact is unknown at this time given that the Province is initiating a review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans.

Potential FES Outlook (\$ Billions)				
	Actual 2015-16	Current Outlook 2016-17	Medium-Term Outlook	
			2017-18	2018-19
Revenue	128.4	131.8	138.4	142.5
Expense				
Programs	122.4	123.3	125.4	128.7
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.9	137.3	141.3
Surplus/(Deficit) before Reserve	(5.0)	(3.1)	1.1	1.2
Reserve	–	1.0	1.1	1.2
Surplus/(Deficit)	(5.0)	(4.1)	0.0	0.0
Potential Net Fiscal Impact of Change in Accounting Treatment for Pension Assets	–	Up to (2.2)	Under review	Under review

Option 2A and 2B: Take on Full or Partial Impact on a Multi-Year Basis

The government could, through fiscal effort, create room in the current fiscal outlook to accommodate both taking on the potential fiscal impact of the change in pension asset accounting (either full or partial impact) and maintaining its 2016 Budget fiscal targets.

\$ Billions	2016-17	2017-18	2018-19
Potential FES Outlook Surplus/(Deficit)	(4.1)	(0.0)	(0.0)
Selected Fiscal Effort required to accommodate Pension Asset Accounting Change			
Potential Selection of Revenue Tools: - Revised forecast with more upside potential - Placeholder for potential new revenue measures (e.g. tax changes) - Revised assumptions related to new federal funding	0.7 to 1.0	0.6 to 1.2	0.6 to 1.7
Potential Selection of Expense Tools: - Further drawdown of the Contingency Fund (currently \$0.9B in 16-17, \$1.4B in 17-18, and \$3.5B in 18-19 for compensation and all other expense risks) - Take on additional Interest on Debt savings in 2016-17 - Increase year-end savings target	0.7 to 1.0	0.6 to 1.2	0.6 to 1.7
Reserve: Reduce the size of the Reserve (e.g., maintained at \$0.8 billion per year)	0.2	0.3	0.4
Range of Fiscal Effort required to accommodate Pension Asset Accounting Change	1.5 to 2.2	1.5 to 2.8	1.5 to 3.7
Surplus/(Deficit) After Fiscal Effort	(2.6) to (1.9)	1.5 to 2.8	1.5 to 3.7
Potential Impact of Pension Asset Accounting Treatment	(1.5) to (2.2)	(1.5) to (2.8)	(1.5) to (3.7)
Resulting Surplus/(Deficit) After Fiscal Effort/Pension Accounting	(4.1)	0.0	0.0

FES Fiscal Outlook after Fiscal Effort and Pension Accounting Change

Option 2a: Full Potential Impact

	Actual	Plan	Outlook	
\$ Billions	2015-16	2016-17	2017-18	2018-19
Revenue	128.4	132.8	139.6	144.2
Expense				
Programs	122.4	122.3	124.2	127.1
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	133.9	136.0	139.6
Surplus/(Deficit) before Reserve	(5.0)	(1.1)	3.6	4.6
Reserve	–	0.8	0.8	0.8
Surplus/(Deficit)	(5.0)	(1.9)	2.8	3.7
Potential Impact of Pension Asset Accounting Change	–	(2.2)	(2.8)	(3.7)

Option 2b: Partial Impact

	Actual	Plan	Outlook	
\$ Billions	2015-16	2016-17	2017-18	2018-19
Revenue	128.4	132.5	139.0	143.1
Expense				
Programs	122.4	122.7	124.8	128.2
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.3	136.7	140.8
Surplus/(Deficit) before Reserve	(5.0)	(1.8)	2.3	2.3
Reserve	–	0.8	0.8	0.8
Surplus/(Deficit)	(5.0)	(2.6)	1.5	1.5
Potential Impact of Pension Asset Accounting Change	–	(1.5)	(1.5)	(1.5)

An additional option (2C) could include publishing the 2016 FES with a 2016-17 update only, taking on the potential impact of the pension asset accounting change.

Pension Asset – Considerations for FES

1. Use the amounts set out in the 2016 Budget

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

2. Use the amounts forecast by OPCD using the Auditor General's interpretation

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

3. Use the impact from 2015-16

- \$1.5 billion is a calculated amount (not an estimate) – it is the amount of the change in the asset from the prior year
- There is no evidence to support using that same amount for 2016-17
- OPCD has estimated the amount for 2016-17 – which is \$2.2 billion

Other Considerations

- Creating room in the current fiscal outlook to accommodate both taking on the potential fiscal impact of the change in pension asset accounting and maintaining 2016 Budget fiscal targets would require fiscal effort.
 - Considering the **2016-17 fiscal year is half over**, timing presents a challenge to implementing tools/fiscal effort to address the \$2.2 billion potential impact in that year.
 - Alternatively, the government could report a deteriorated deficit target in 2016-17, but would require a detailed plan to ensure credibility of the government's plan to balance in 2017-18 with external financial stakeholders.
- Fiscal effort to accommodate the accounting change builds on tools already included in the potential FES outlook and could **further reduce flexibility as the government addresses the broader fiscal gap** as part of PRRT and 2017 Document planning.
- It is expected that the **Financial Accountability Officer** will release a fiscal outlook update in advance of the Fall Statement that will also include an outlook that incorporates the forecasted impact of the pension asset accounting change.
- The current potential impact of the change in pension asset accounting treatment is a **preliminary estimate for 2016-17 to 2018-19 and is subject to change**. Taking on the potential impact as part of the 2016 FES could result in variability of fiscal targets as part of future fiscal updates.
- The government would need to consider whether to carry forward the net debt impact of the accounting change as part of the medium-term forecast for net debt-to-GDP in the FES.

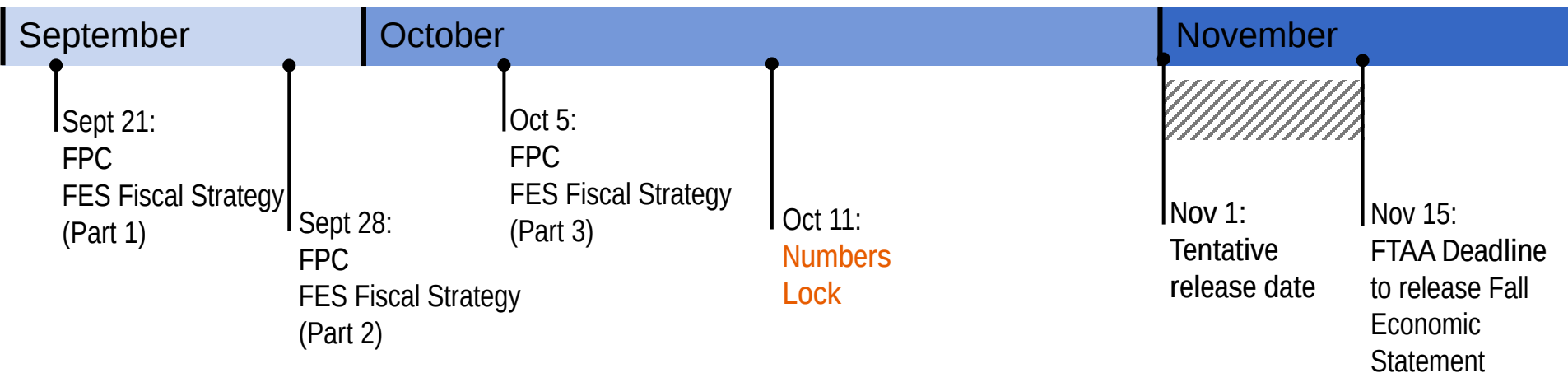
Key Decisions and Next Steps

Key Decisions

- Whether to incorporate the potential fiscal impact of the change in pension asset accounting (either fully or partially) into the FES narrative only or the fiscal outlook.

Next Steps

- October 11: To ensure adequate time to complete, review and print the document, **“numbers lock”** needs to occur three weeks before the release date.
- Once FES fiscal outlook is finalized, begin initial fiscal architecture discussions for the 2017 Document.



Potential FES Fiscal Narrative

- The government is dedicated to a fiscally sound approach to managing the Province's finances. This will help grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.
- An important aspect of the government's fiscal approach is its commitment to balance the budget in 2017–18. [Achieving balance will also put net-debt-to-GDP on a declining track and support the Province's commitment to return to pre-recession levels.]
- The government is sharing the benefits of Ontario's economic growth and its responsible approach to fiscal management by investing in things that matter most and that help Ontarians in their everyday lives, such as electricity cost relief to Ontario consumers, health care, and opening up additional child care spaces.
 - The government is committed to creating **100,000 new licensed child care spaces** within the next five years to help more working families in Ontario access quality, affordable child care. In this Document, the government is taking immediate action to move forward on this commitment by announcing a \$39 million capital investment for the [current] 2016-17 school year to help support the availability of an additional 1,300 spaces in schools beginning in September 2017.
- With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned for fiscal sustainability.
- Looking forward, the government is projecting a **deficit of \$4.1 billion in 2016–17, a return to balance in 2017–18, and continued balance in 2018–19**. In 2016–17, this reflects an improvement of \$0.2 billion compared with the deficit target projected in the *2016 Budget*.

Given the government will be reviewing various tools to help close the gap between FES and the 2017 Document, the FES fiscal narrative may need to foreshadow potential actions. For example, this could include statements such as:

"The government is committed to protecting the gains made through prudent fiscal management and the strengthening of Ontario's economy, and will consider other potential tools to ensure Ontario can achieve fiscal sustainability while protecting the programs and services Ontarians rely on in their everyday lives."

Appendix

FES Fiscal Outlook after Fiscal Effort and Pension Accounting Change

These tables include the fiscal impact of the pension accounting change in program expense.

Option 2a: Full Potential Impact

	Actual	Plan	Outlook	
\$ Billions	2015-16	2016-17	2017-18	2018-19
Revenue	128.4	132.8	139.6	144.2
Expense				
Programs	122.4	124.5	127.0	130.8
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	136.1	138.8	143.4
Surplus/(Deficit) before Reserve	(5.0)	(3.3)	0.8	0.8
Reserve	–	0.8	0.8	0.8
Surplus/(Deficit)	(5.0)	(4.1)	0.0	0.0

Option 2b: Partial Impact

	Actual	Plan	Outlook	
\$ Billions	2015-16	2016-17	2017-18	2018-19
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Office of the Budget
MINISTRY of FINANCE

From: Tarin, Ghufuran (MOF) []
To: Nicholson, Robert (MOF) [Robert.Nicholson@ontario.ca]
CC: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]; Anania, John (MOF) [John.Anania@ontario.ca]; Williams, Mark (MOF) [Mark.Williams2@ontario.ca]
Subject: FW: FES KMsv2
Date: Tuesday, October 25, 2016 14:07:27
Attachment 1: image001.png
Attachment 2: FES KMsv2.docx

Hi Rob – Attached is the file Brian is referring to. Please make the necessary changes including Brian's below. To save time, please send it directly to Ryan Birks cc'ing me.

Thanks,

Ghufran

From: Lewis, Brian (MOF)
Sent: October-25-16 1:51 PM
To: Nicholson, Robert (MOF); Tarin, Ghufuran (MOF)
Subject: Fw: FES KMsv2
Importance: High

Please look at this and get changes, including mine below, to OBT.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>

Sent: Tuesday, October 25, 2016 1:48 PM

To: Lewis, Brian (MOF); Veinot, Cindy (TBS)

Cc: Esmail, Selena (MOF)

Subject: RE: FES KMsv2

Awesome. Think they're looking for something in the next 30 minutes, apologies for

that. If we can get it as accurate as possible, that would be great.

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

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Toronto ON M7A 1Z1

Tel: 416-327-0173

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We'll review. The language around stronger econ growth needs to be finessed... stronger _2016_ economic growth would be correct.

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From: Schuurman, Tim (MOF)
Sent: Tuesday, October 25, 2016 1:44 PM
To: Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Esmail, Selena (MOF)
Subject: FES KMsv2

Brian, Cindy

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Office of the Budget
MINISTRY of FINANCE

Confidential

With/without revised deficit target

We are on track to {meeting our deficit target this year} and balancing the budget next year while helping to grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.

Earlier this fall, the Auditor General proposed that the government change its longstanding approach to the accounting policy for pension assets.

Quite unexpectedly, we found ourselves in the middle of an accounting disagreement ~~pute~~ between over how the government and previous Auditor Generals have accounted for pension assets over the past (14) years and the current Office of the Auditor General's view on how these assets should now be accounted for. and senior civil servants.

To provide clarity, we established an independent panel to review the issue and we are awaiting their report.

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Out of respect for the Auditor General, and pending the outcome of the panel's review process, we are using the Auditor's proposed accounting approach and incorporating preliminary estimates of the fiscal impact into our numbers.

{The result is a higher deficit than originally planned for 2016-17 (\$4.8B).}

Even after accounting for the Auditor's new interpretation, we are on track to {meet out 2016-17 deficit target} and balance the budget in 2017-18 and 2018-19.

We are able to manageing the potential impact as a result ofthrough a combination of:

- Higher than expected revenue projections, mainly arising from a stronger economic outlook for Ontario, and revised revenue assumptions
- By using the reserve, which is included in the fiscal plan to protect the Province from unexpected changes in the numbers, funds

Confidential

Before the Auditor raised this issue, for the eighth consecutive year we were forecasting a lower deficit target than outlined in the Budget.

Our prudent approach to fiscal management coupled with ~~higher-stronger~~ than expected [economic](#) growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs.

[This is our mid-year update for this year.](#) We will provide an updated account of our fiscal plan in the 2017 Budget.

With current deficit target

Commented [ES1]: Comments as per the above

~~We are on track to meeting our deficit target this year and balancing the budget next year.~~

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- revised revenue assumptions
- reserve funds

Formatted: Normal, No bullets or numbering

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What: Increase in taxation revenue and GBE revenue

Why:

- 2015 and 2016 economic growth expected to come in higher than anticipated at the time of the Budget.
- Stronger than anticipated personal and corporate income tax revenues, and continued strength in housing market which results in revenue as well.

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Reserve funds Reserve

What: Using a portion of the reserve

Why:

- This is an unexpected change to the accounting treatment for pension assets that we have encountered for the first time in 14 years.
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Confidential

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DRAFT

From: Amara, Bruno (MOF) []
To: Lewis, Brian (MOF) [Brian.Lewis@Ontario.ca]
CC: Tarin, Ghufra (MOF) [Ghufra.Tarin@ontario.ca]
Subject: FW: FES KMsv2
Date: Tuesday, October 25, 2016 14:29:01
Attachment 1: image001.png
Attachment 2: FES KMsv2.docx

Brian

Regarding the stronger 2016 economic growth point. Real is stronger Nominal is six tenths weaker in 2016 and three tenths weaker in 2017?

Were you wanting to hang story on real?

From: Williams, Mark (MOF)
Sent: October 25, 2016 2:25 PM
To: Nicholson, Robert (MOF)
Cc: Amara, Bruno (MOF); Anania, John (MOF)
Subject: RE: FES KMsv2

From: Tarin, Ghufra (MOF)
Sent: October 25, 2016 2:07 PM
To: Nicholson, Robert (MOF)
Cc: Amara, Bruno (MOF); Anania, John (MOF); Williams, Mark (MOF)
Subject: FW: FES KMsv2
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DRAFT

From: Tarin, Ghufan (MOF) []
To: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]
CC: Lewis, Paul (MOF) [Paul.D.Lewis@ontario.ca]
Subject: FW: Plan for MMP Preps Next Week
Date: Wednesday, January 04, 2017 11:51:24
Attachment 1: FPC Fiscal Strategy Deck

Hi Bruno – Please see the email below from DMO. I have a question about the deck that we will be working on this week for FPC next week: will it include a discussion of potential revenue levers?

There is another MMP prep meeting tomorrow afternoon where they want to discuss tax-revenue and non-tax revenue. But I don't think we will have anything ready for tomorrow.

Thanks,

Ghufan

From: Pearce, Christopher (MOF)
Sent: January-04-17 10:43 AM
To: Tarin, Ghufan (MOF)
Cc: Young, Gwendolynne (MOF); McLean, David (MOF)
Subject: FW: Plan for MMP Preps Next Week

FYI Ghufan. Resending the Dec 14 FPC deck. I will signal back to TBS that we'll have to focus tomorrow's discussion on the tax revenue options and whatever is left over from today's discussion as the revenue forecast and potential levers to increase NTR isn't something we'll be prepared to speak to today.

I know OEP is working on a deck for Monday for the DM that will include a revised revenue forecast. Will it include a discussion of potential revenue levers?

From: Pearce, Christopher (MOF)
Sent: December 28, 2016 3:00 PM

To: Schuurman, Tim (MOF); Birks, Ryan (MOF)
Cc: DeSouza, Jenarra (MOF); Zhang, Christina (OFA); Tarin, Ghufra (MOF)
Subject: FW: Plan for MMP Preps Next Week

FYI both. Our questions about the plan of attack for the MMP prep sessions spawned this chain. I'm cc'ing OEP, OFA, and TPD as I just flipped the invite their way as well. I've attached the Dec 15th FPC deck that Nicole mentions below.

From: Duran-Schneider, Maria (TBS)
Sent: December 28, 2016 2:39 PM
To: Simone, Nicole (TBS); Angus, Helen (TBS); Arruda, Artur (TBS); Hughes, Karen (TBS)
Cc: MacIntyre, Kyle (TBS); Nelson, Dane (TBS); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Law, Rex (TBS); Hosick, Sarah (TBS); Pearce, Christopher (MOF); McLean, David (MOF)
Subject: Re: Plan for MMP Preps Next Week

Thanks Nicole. This is helpful. We are finalizing the roll up, which includes approvals and recommendations for the above allocation asks (blues), as well as all the high cost options for the new initiatives (grays), so the roll up should be able to facilitate the discussion (line-by-line) on the fuzzy blue and fuzzy grey. We'll also prepare to speak to the expense levers. We should be fine for the prep meetings on the 4th and 5th.

Maria

From: Simone, Nicole (TBS)

Sent: Wednesday, December 28, 2016 2:04 PM

To: Angus, Helen (TBS); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Hughes, Karen (TBS)

Cc: MacIntyre, Kyle (TBS); Nelson, Dane (TBS); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Law, Rex (TBS); Hosick, Sarah (TBS); Pearce, Christopher (MOF); McLean, David (MOF)

Subject: Plan for MMP Preps Next Week

Hi folks,

I hope you are all enjoying the holidays. Just wanted to touch base on the plan for the MMP prep meetings on the 4th and 5th. We had a Q from the MOF DMO on a game plan, so I connected with the MO to make sure we're all on the same page. Unless you disagree, this is the proposed plan (but flag if you think we need to add/subtract anything):

Jan 4 – Using the deck from December 15th as the backdrop, the first part of the meeting should focus on the levers (see below for the ones that Mike outlined off the top of his head, though I think we could use slide 10 from the Dec 15th deck as the tool to guide the conversation). Time pending, we would then move into a discussion (line-by-line) on the fuzzy blue and fuzzy grey.

Jan 5 – Finish off discussion on fuzzy blues/greys and then focus on list of what needs to be advanced in preparation for FPC workshop and MMP.

A couple things to note that are contrary to the previous conversations we had with the MO on this:

- We'll be extending the invites for both meetings to PO (Jacob).
- Mike is okay with expanding the group a bit on the MOF side since they will need to lead the lever convos for Revenue and IOD etc. MOF DMO will send to a few additional people on their end.

Hope this helps. Enjoy the rest of the week for those that are off.

Nicole

Mike's list of Levers:

Revenue:

Tax revenue increases

Non-tax revenue increases

Fed-Prov strategy

Expense:

Accounting Updates

Reducing above allocation asks (blues)

Reducing cost of new initiatives (grays)

Save to re-invest scheme (picking up on the anchor we dropped at start of PRRT)

Exceeding savings targets associated with existing and new horizontal boulder initiatives

Short Term savings targets (with processes to deliver savings)

Longer Term savings targets (with processes to deliver savings)

IOD

Other:

Budget investment envelope beyond new initiatives bucket (will add to expense)

Prudence adjustments (will add to expense)

Nicole Simone

Manager, Policy Alignment and Strategic Engagement

Deputy Minister's Office

Treasury Board Secretariat

Nicole.simone@ontario.ca

Office: 416-326-6286

Cell: 647-302-1685

From: Schuurman, Tim (MOF) []
To: Thompson, Scott (MOF) [Scott.Thompson@ontario.ca]; Angus, Helen (TBS) [Helen.Angus@ontario.ca]; Lewis, Brian (MOF) [Brian.Lewis@Ontario.ca]; Mayman, Gadi (OFA) [Gadi.Mayman@ofina.on.ca]; Subrahmanyam, Sriram (MOF) [Sriram.Subrahmanyam@ontario.ca]; Kwan, Ronald (OFA) [Ronald.Kwan@ofina.on.ca]; Hughes, Karen (TBS) [Karen.Hughes@ontario.ca]; Arruda, Artur (TBS) [Artur.Arruda@ontario.ca]; Duran-Schneider, Maria (TBS) [Maria.Duran-Schneider@ontario.ca]; Doheny, Allan (MOF) [Allan.Doheny@ontario.ca]; Kennedy, Nancy (MOF) [Nancy.Kennedy@ontario.ca]
CC: McLean, David (MOF) [David.McLean@ontario.ca]; Pearce, Christopher (MOF) [Christopher.Pearce@ontario.ca]; Esmail, Selena (MOF) [Selena.Esmail@ontario.ca]; Lindquist, Emma (MOF) [Emma.Lindquist@ontario.ca]; Inglis, Liane (MOF) [Liane.Inglis@ontario.ca]; Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; MacIntyre, Kyle (TBS) [Kyle.MacIntyre@ontario.ca]
Subject: FPC Fiscal Strategy Deck
Date: Wednesday, December 14, 2016 15:30:37
Attachment 1: Fiscal Planning Deck_FPC_v9.pptx
Attachment 2: image001.png

Please find attached an updated version of the FPC fiscal strategy deck for tomorrow's meeting – the only changes since yesterday's briefing of Minister Sandals are minor wording updates to various slides.

I understand a targeted distribution of this deck will take place for FPC - - and given the content of the deck includes sensitive confidential information, internal distribution should also be limited.

Backpocket information for the briefing on some of the tools in the deck will be circulated separately to a target group as well.

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

From: Amara, Bruno (MOF) []
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CC: Lindquist, Emma (MOF) [Emma.Lindquist@ontario.ca]; Nicholson, Robert (MOF) [Robert.Nicholson@ontario.ca]; Lewis, Paul (MOF) [Paul.D.Lewis@ontario.ca]
Subject: FW: Q3 update
Date: Tuesday, January 24, 2017 18:17:34
Attachment 1: Q3Finances_Considerations_v4h.pptx

Hi Liane

This is the latest Q3 deck we have. We notice that the econ and rev slides that we sent are not included and just want to check on this. Were these taken out on purpose? I can see that Slide 7 is perhaps replacing the separate revenue slide and providing a menu of options.

Thanks

Bruno

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Sent: January 24, 2017 3:53 PM
To: Amara, Bruno (MOF); Nicholson, Robert (MOF); Anania, John (MOF)
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More details to follow tomorrow.

Thanks.

Fiscal Strategy: Ontario's Third Quarter Finances

Office *of the* Budget
MINISTRY *of* FINANCE

Presentation to FPC on January 25, 2017

Preliminary Draft

Draft – January 24, 2017 12:00 PM

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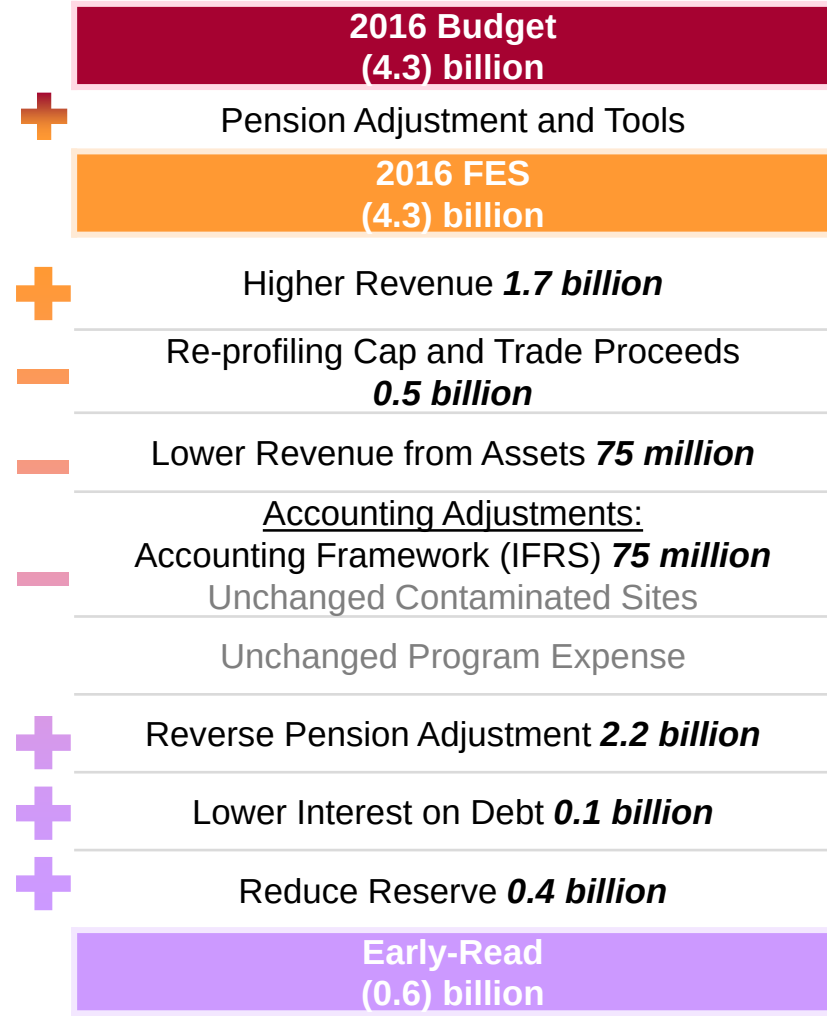
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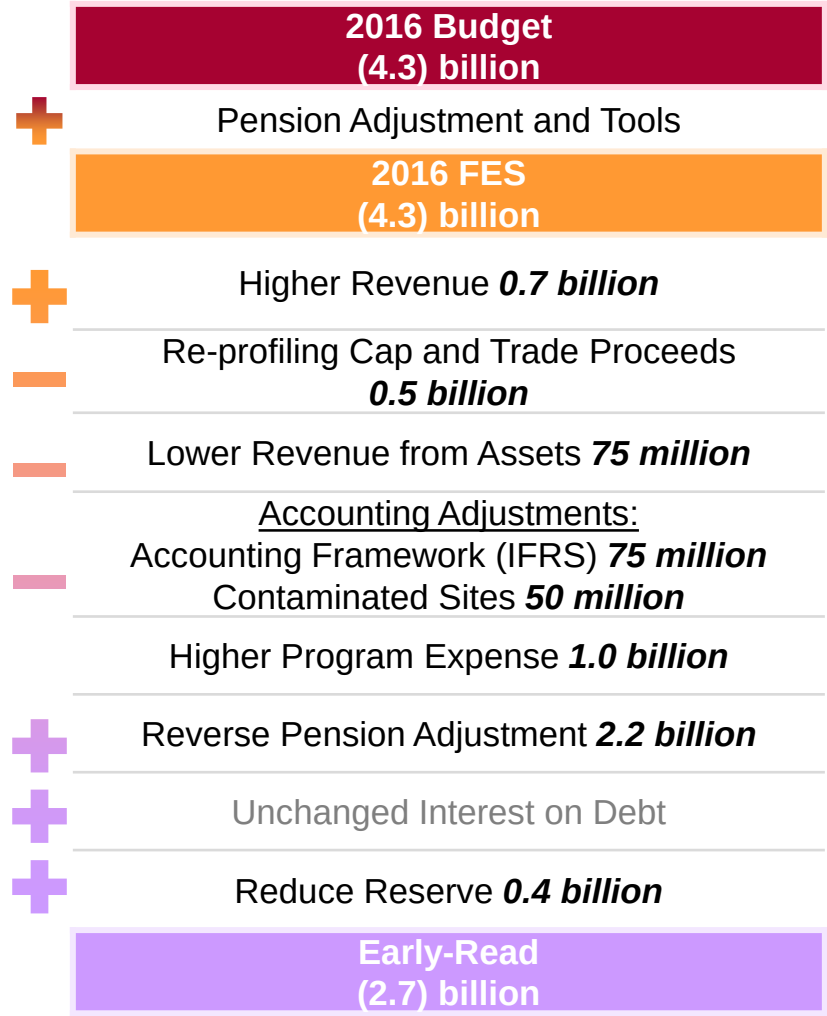
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Significant Year-end Improvement



Moderate Year-end Improvement



Treatment of Pension Adjustment

Panel Recommendation

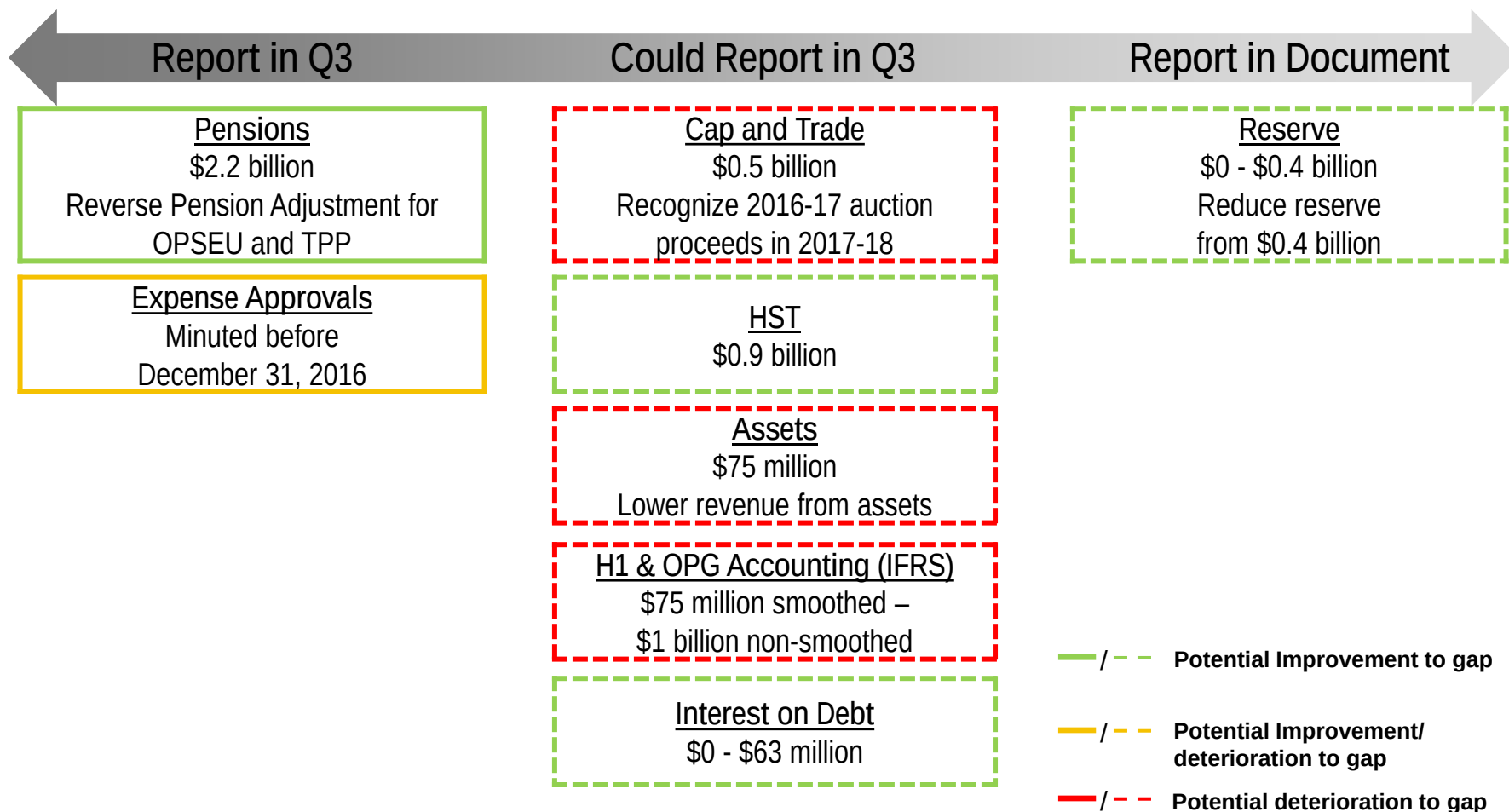
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
 - The report is expected to include advice that the net pension asset be recognized in the Province's financial statements.
 - If taken on, would result in a positive fiscal impact in all years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years due to growing pressures.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
● Revisions to economic outlook ● Ongoing provincially-administered tax receipts ● Non-tax revenue updates from Ministry PRRT submissions ● Net income updates from government business enterprises

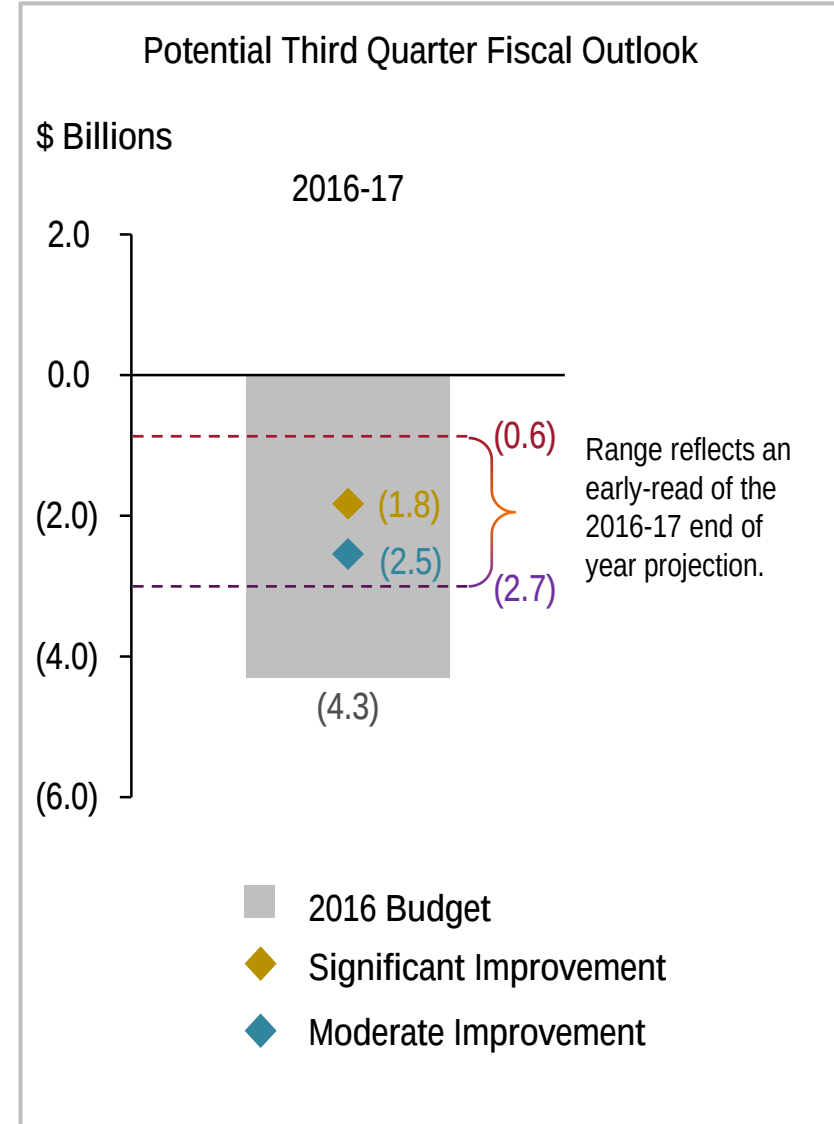
Expense
● Ministry Q3/interim submissions ● Consolidations and other technical adjustments ● Interest on debt forecast updates ● Contaminated sites liabilities ● Update pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Principles for the 2016-17 Outlook

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes that could adversely impact the Province's fiscal performance between now and the Budget, and ultimately, Public Accounts.
- For example, based on current information and taking into account key building blocks, Q3 could present a deficit ranging from \$2.5 billion (moderate improvement) to \$1.8 billion (significant improvement).

Moderate Improvement	Significant Improvement
Takes on the following key building blocks:	Takes on the following key building blocks:
Pensions \$2.2 billion Cap and Trade \$(0.5) billion	Pensions \$2.2 billion Cap and Trade \$(0.5) billion Interest on Debt \$0.1 billion HST \$0.9 billion Assets \$(0.1) billion H1 & OPG Accounting (IFRS) \$(0.1) billion

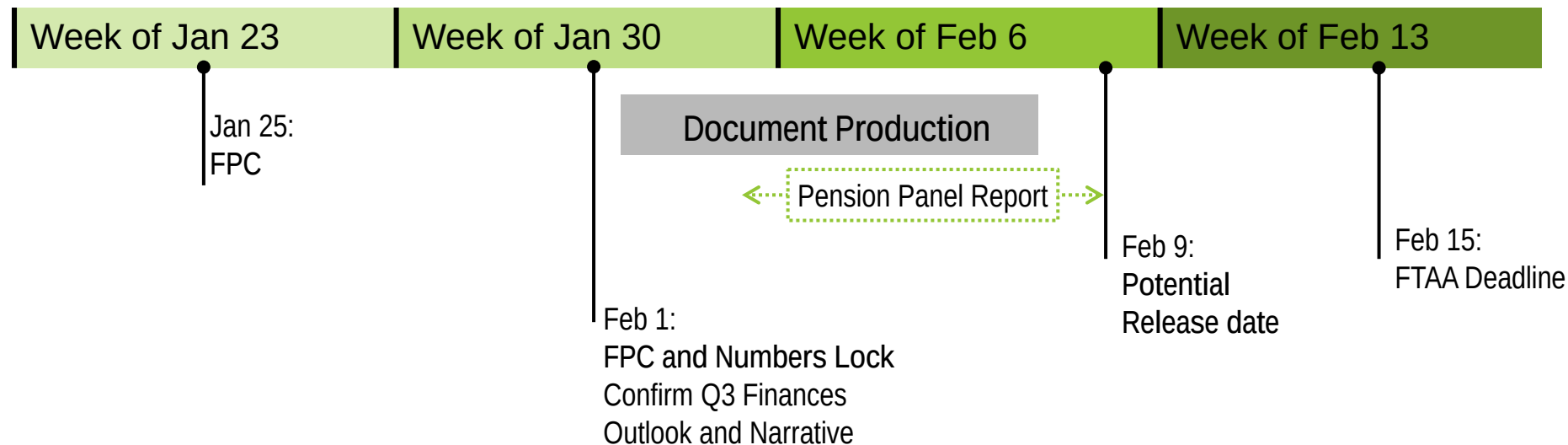


Fiscal Narrative to Support Pension Reversal

The narrative could build on the 2016 FES, focusing on the investments the government is making in priority areas while remaining committed to balance the budget in 2017-18. This narrative would be further supported by highlighting the reversal of the pension adjustment, and could make room for announcements leading up to the release of the 2017 Document.

- *The government is projecting a **deficit of \$X.X billion in 2016-17**, an improvement of \$X.X billion since the 2016 Ontario Economic Outlook and Fiscal Review forecast.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that the net pension asset be recognized in the Province's financial statements.*
- ***The government is adopting the Panel's recommendation** by reversing the Pension Adjustment included in the 2016 Ontario Economic Outlook and Fiscal Review outlook. The reversal of the Pension Adjustment will result in a significant improvement in the 2016-17 outlook and could support additional investments in 2017-18 and beyond.*
- *The government is projected to beat its deficit target for the **eighth year in a row**.*

Next Steps



Decision on Third Quarter Finances fiscal strategy:

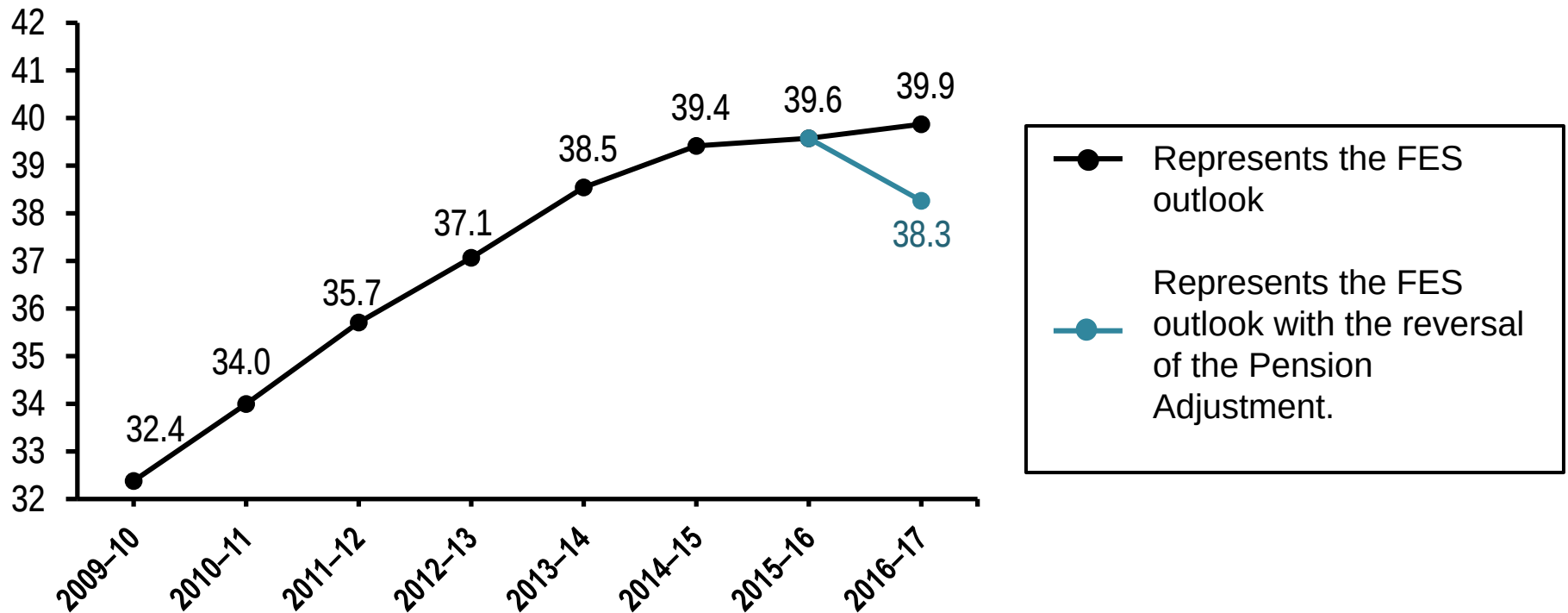
1. Seeking decision on the fiscal outlook and narrative to publish in the Third Quarter Finances.
2. Confirm **release date** (currently tracking to February 9th) and determine if a letter to the Clerk is required.
3. Communication and rollout approach with regards to the timing of the release of the Pension Panel's report and recommendations.

Appendix

Net Debt-to-GDP With Pension Reversal

- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the \$10.5 billion debt adjustment made in the 2015-16 Public Accounts

Per Cent



2017 Third Quarter Finances – Draft Production Calendar

Jan - Feb 2017

Monday	Tuesday	Wednesday	Thursday	Friday
23 Receive high-level input on revenue and expense for fiscal strategy deck	24	25 Fiscal Prep Meeting Q3 Building Blocks	26	27 Detailed input received from key partners
Preliminary Draft of Third Quarter Finances Under Development				
30 Preliminary Draft of Third Quarter Finances Under Development ORBIT Sign-off (AM)	31 Minister Briefing (TBD) 1 st Distribution	February 1 Fiscal Prep Meeting Confirm Q3 Outlook Numbers Lock 	2 Ministry Q3 submissions due Director Sign-off 2 nd Distribution	3 ADM & Associate DM Sign-off 3 rd Distribution
6 DM Sign-off Final Distribution	7 Finalize News Release and other Communication materials	8	9 Potential Third Quarter Finances Release Date	10
French/HTML Translation				
13	14	15 FTAA Deadline for Third Quarter Finances	16	17
20 FAMILY DAY HOLIDAY	21	21	23	24

Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	\$75M	\$425M	\$525M	\$675M	\$675M
High Impact (non-smoothed IFRS impact)**	\$1B	\$375M	\$400M	\$400M	\$400M

*** OPG's estimate of cumulative impact for 2015-2020 is \$2.5B under the preferred approach, and \$2.6B under the high impact approach.*

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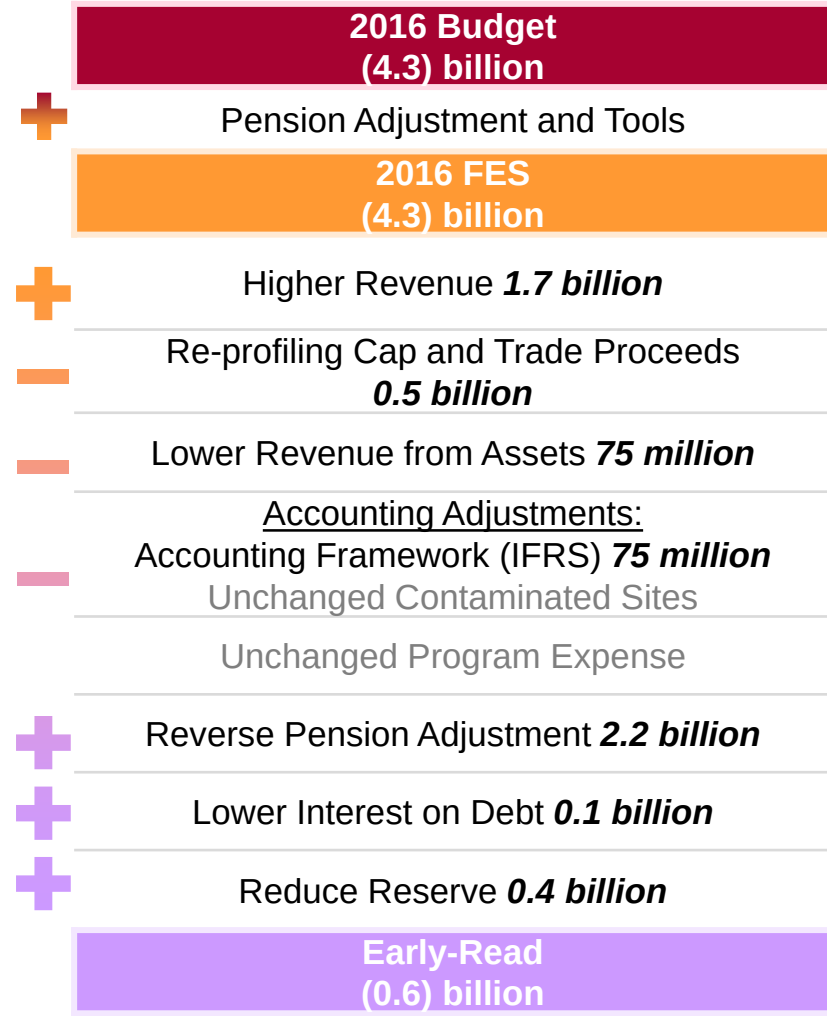
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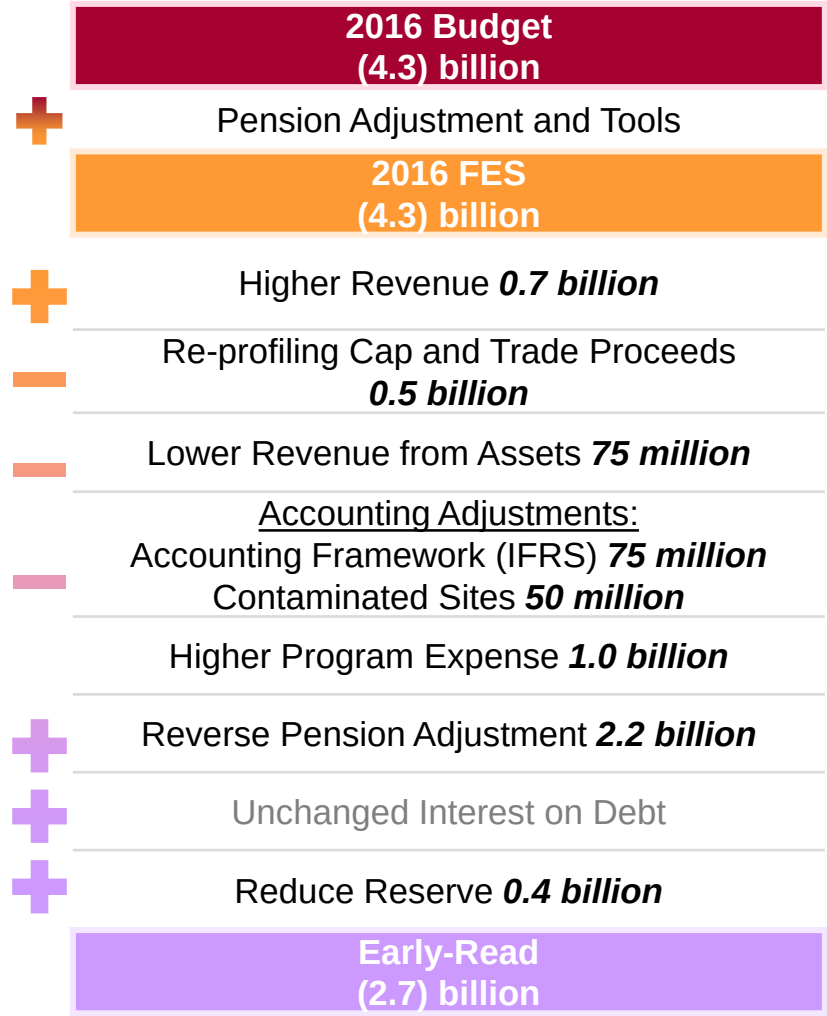
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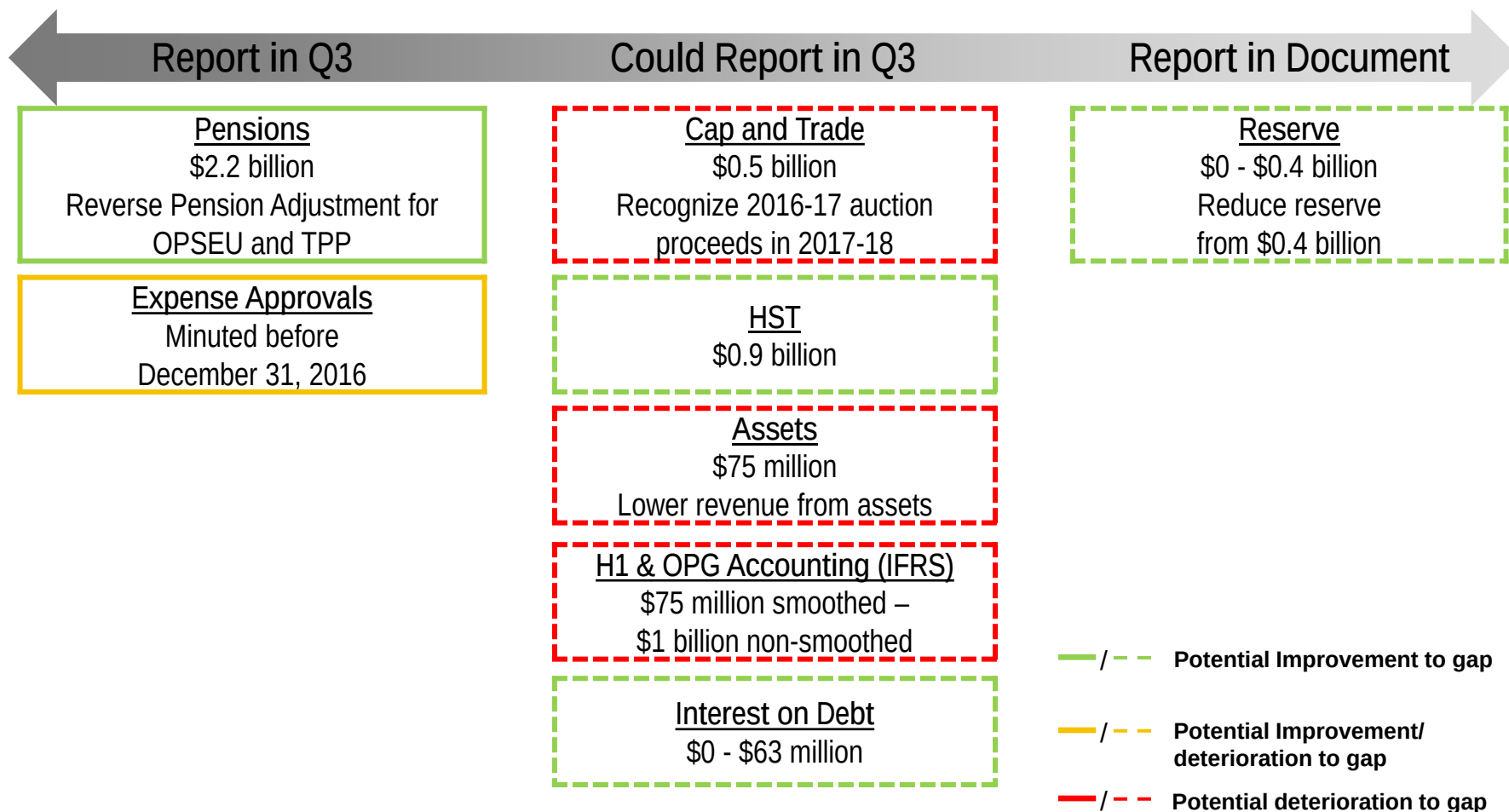
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- While the reversal will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years due to growing pressures.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
● Revisions to economic outlook ● Ongoing provincially-administered tax receipts ● Non-tax revenue updates from Ministry PRRT submissions ● Net income updates from government business enterprises

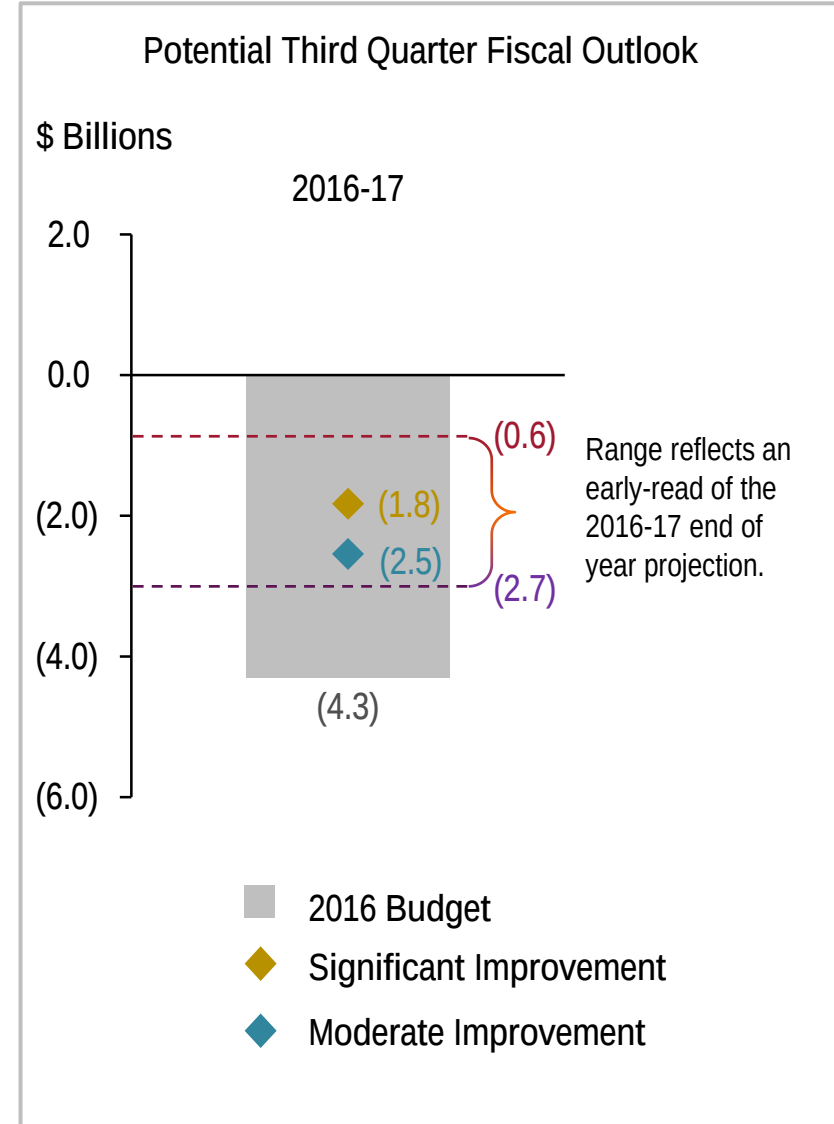
Expense
● Ministry Q3/interim submissions ● Consolidations and other technical adjustments ● Interest on debt forecast updates ● Contaminated sites liabilities ● Update pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Principles for the 2016-17 Outlook

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes that could adversely impact the Province's fiscal performance between now and the Budget, and ultimately, Public Accounts.
- For example, based on current information and taking into account key building blocks, Q3 could present a deficit ranging from \$2.5 billion (moderate improvement) to \$1.8 billion (significant improvement).

Moderate Improvement	Significant Improvement
Takes on the following key building blocks:	Takes on the following key building blocks:
Pensions \$2.2 billion Cap and Trade \$(0.5) billion	Pensions \$2.2 billion Cap and Trade \$(0.5) billion Interest on Debt \$0.1 billion HST \$0.9 billion Assets \$(0.1) billion H1 & OPG Accounting (IFRS) \$(0.1) billion

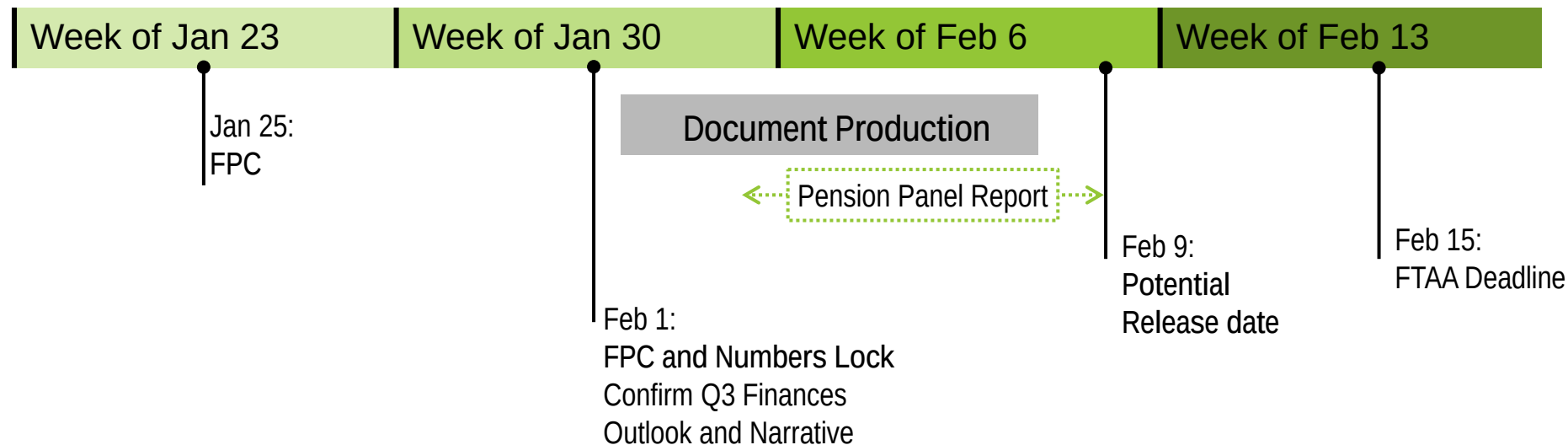


Fiscal Narrative to Support Pension Reversal

The narrative could build on the 2016 FES, focusing on the investments the government is making in priority areas while remaining committed to balance the budget in 2017-18. This narrative would be further supported by highlighting the reversal of the pension adjustment, and could make room for announcements leading up to the release of the 2017 Document.

- *The government is projecting a **deficit of \$X.X billion in 2016-17**, an improvement of \$X.X billion since the 2016 Ontario Economic Outlook and Fiscal Review forecast.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that the net pension asset be recognized in the Province's financial statements.*
- ***The government is adopting the Panel's recommendation** by reversing the Pension Adjustment included in the 2016 Ontario Economic Outlook and Fiscal Review outlook. The reversal of the Pension Adjustment will result in a significant improvement in the 2016-17 outlook and could support additional investments in 2017-18 and beyond.*
- *The government is projected to beat its deficit target for the **eighth year in a row**.*

Next Steps



Decision on Third Quarter Finances fiscal strategy:

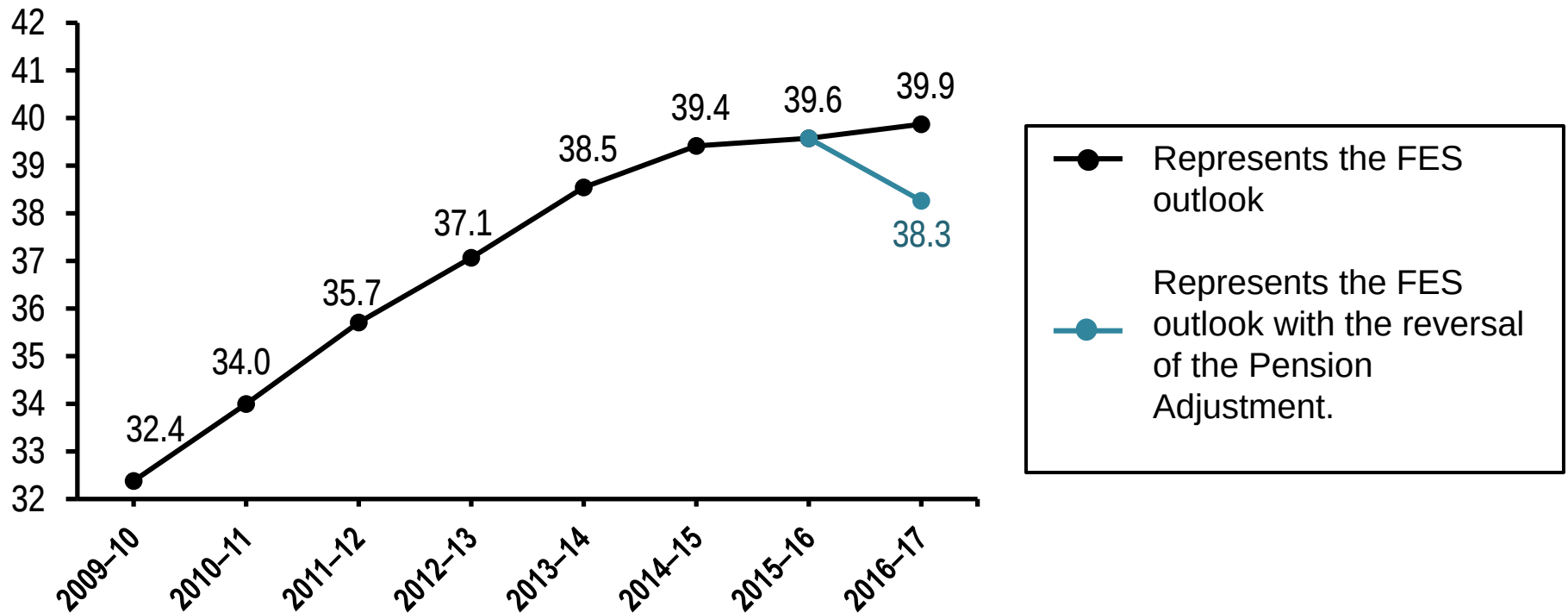
1. Seeking decision on the fiscal outlook and narrative to publish in the Third Quarter Finances.
2. Confirm **release date** (currently tracking to February 9th) and determine if a letter to the Clerk is required.
3. Communication and rollout approach with regards to the timing of the release of the Pension Panel's report and recommendations.

Appendix

Net Debt-to-GDP With Pension Reversal

- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the \$10.5 billion debt adjustment made in the 2015-16 Public Accounts

Per Cent



2017 Third Quarter Finances – Draft Production Calendar

Jan - Feb 2017

Monday	Tuesday	Wednesday	Thursday	Friday
23 Receive high-level input on revenue and expense for fiscal strategy deck	24	25 Fiscal Prep Meeting Q3 Building Blocks	26	27 Detailed input received from key partners
Preliminary Draft of Third Quarter Finances Under Development				
30 Preliminary Draft of Third Quarter Finances Under Development ORBIT Sign-off (AM)	31 Minister Briefing (TBD) 1 st Distribution	February 1 Fiscal Prep Meeting Confirm Q3 Outlook Numbers Lock 	2 Ministry Q3 submissions due Director Sign-off 2 nd Distribution	3 ADM & Associate DM Sign-off 3 rd Distribution
6 DM Sign-off Final Distribution	7 Finalize News Release and other Communication materials	8	9 Potential Third Quarter Finances Release Date	10
French/HTML Translation				
13	14	15 FTAA Deadline for Third Quarter Finances	16	17
20 FAMILY DAY HOLIDAY	21	21	23	24

Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	\$75M	\$425M	\$525M	\$675M	\$675M
High Impact (non-smoothed IFRS impact)**	\$1B	\$375M	\$400M	\$400M	\$400M

*** OPG's estimate of cumulative impact for 2015-2020 is \$2.5B under the preferred approach, and \$2.6B under the high impact approach.*

From: Inglis, Liane (MOF) []
To: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]
Subject: FW: Q3 update
Date: Tuesday, January 31, 2017 19:20:36
Attachment 1: FPC_Q3Finances_Deck v6.pptx
Attachment 2: FPC_Q3_FiscalStrategyPlacemat_v6.pptx

Hi Bruno,

Just wanted to send along the Q3 deck that will be tabled at FPC tomorrow. If you take a look at slide 16, you'll see TBS is recommending profiling an initiative with a federal flow through of ~\$6M. We haven't picked this up in our expense numbers as I understand you haven't picked it up on the revenue side either. We'll have to roll this in as we move toward finalizing the outlook (hopefully it's all inside our rounding!)

Cheers,

Liane

From: Esmail, Selena (MOF)
Sent: January 31, 2017 6:18 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – I'm attaching for you, the materials for tomorrow's FPC discussion, including:

- Q3 Finances background (updated for new proposed release date, recommended option highlighted, and additional information on letter to Clerk)
- Q3 Finances option placemat (also updated to highlight recommended option)
- One-pager highlighted key dates for various deliverables and confirmation of

timing (LTR, Q3, Pensions Panel, letter to clerk, new electricity relief, tentative Document track)

- One-pager with proposed agenda for Feb 9th MMP.

Thanks for your own going support and cooperation.

From: Esmail, Selena (MOF)

Sent: January-27-17 7:07 PM

To: Lewis, Paul (MOF); Cook, Tim (TBS); Doddiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)

Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)

Subject: Re: Q3 update

Hi everyone - here are versions we are going to use to brief our minister on monday.

Many thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Esmail, Selena (MOF)

Sent: Friday, January 27, 2017 12:07 PM

To: Lewis, Paul (MOF); Cook, Tim (TBS); Doddiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)

Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)

Subject: RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are

headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording as well as the **narrative on the placemat** that would be helpful. But happy to hear any comments on the rest of it as well. We are looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your assistance.

Happy to discuss.

Thanks.

From: Esmail, Selena (MOF)

Sent: January-24-17 3:48 PM

To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj

(TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbibba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:

We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:

16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.

Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.

16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.

Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:

Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)

Sent: January-19-17 2:57 PM

To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon

(TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)

Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)

Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Ontario's Third Quarter Finances: Fiscal Strategy

Office *of the* Budget
MINISTRY *of* FINANCE

Presentation to FPC on February 1, 2017

Preliminary Draft

Draft – January 31, 2017 5:00 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only**.

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

Key stakeholders like the Financial Accountability Officer, the Auditor General and rating agencies will assess the fiscal outlook and narrative.

Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

Currently working towards a **release date of February 21, 2017** – need to **confirm the approach to publishing Ontario's Third Quarter Finances**, including:

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the **Pension Panel's Report and recommendations**, and other publicly available information.

Publishing after the February 15th deadline will require that a **letter be sent to the Clerk of the Legislature** advising of the delayed release.

- Letter could be sent on **February 13th** to coincide with the release of the Pension Panel's Report.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances will present a fiscal update relative to the 2016 Budget and address changes since FES in narrative only.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan		Change to FES	FES Outlook
\$ Billions	2016-17	2016-17	2016-17
Revenue	130.6	2.1	132.7
Expense			
Programs	122.1	3.1	125.3
Interest on Debt	11.8	(0.4)	11.4
Total Expense	133.9	2.7	136.6
Surplus/(Deficit) Before Reserve	(3.3)	(0.6)	(3.9)
Reserve	1.0	(0.6)	0.4
Surplus/(Deficit)	(4.3)	(0.0)	(4.3)

Total revenue changes of \$2.1 billion, consisting of:

- Base Forecast Change \$1.0 billion
- Reversal of Homecare \$(0.2) billion
- Federal Agreements \$0.4 billion
- Higher assumed revenue to accommodate pensions \$0.9 billion

Total expense changes of \$2.7 billion, consisting of:

- In-Year Approvals \$0.2 billion
- Pension Adjustment of \$2.2 billion
- Electricity Cost Relief \$0.3 billion
- Support for Hospitals \$0.1 billion
- Green Investment Fund \$0.3 billion
- New Federal Agreements \$0.4 billion
- Contingency Fund Offsets \$(0.5) billion
- Interest on Debt Savings \$(0.4) billion

Change to the Reserve \$(0.6) billion

Treatment of Pension Adjustment

Panel Recommendation

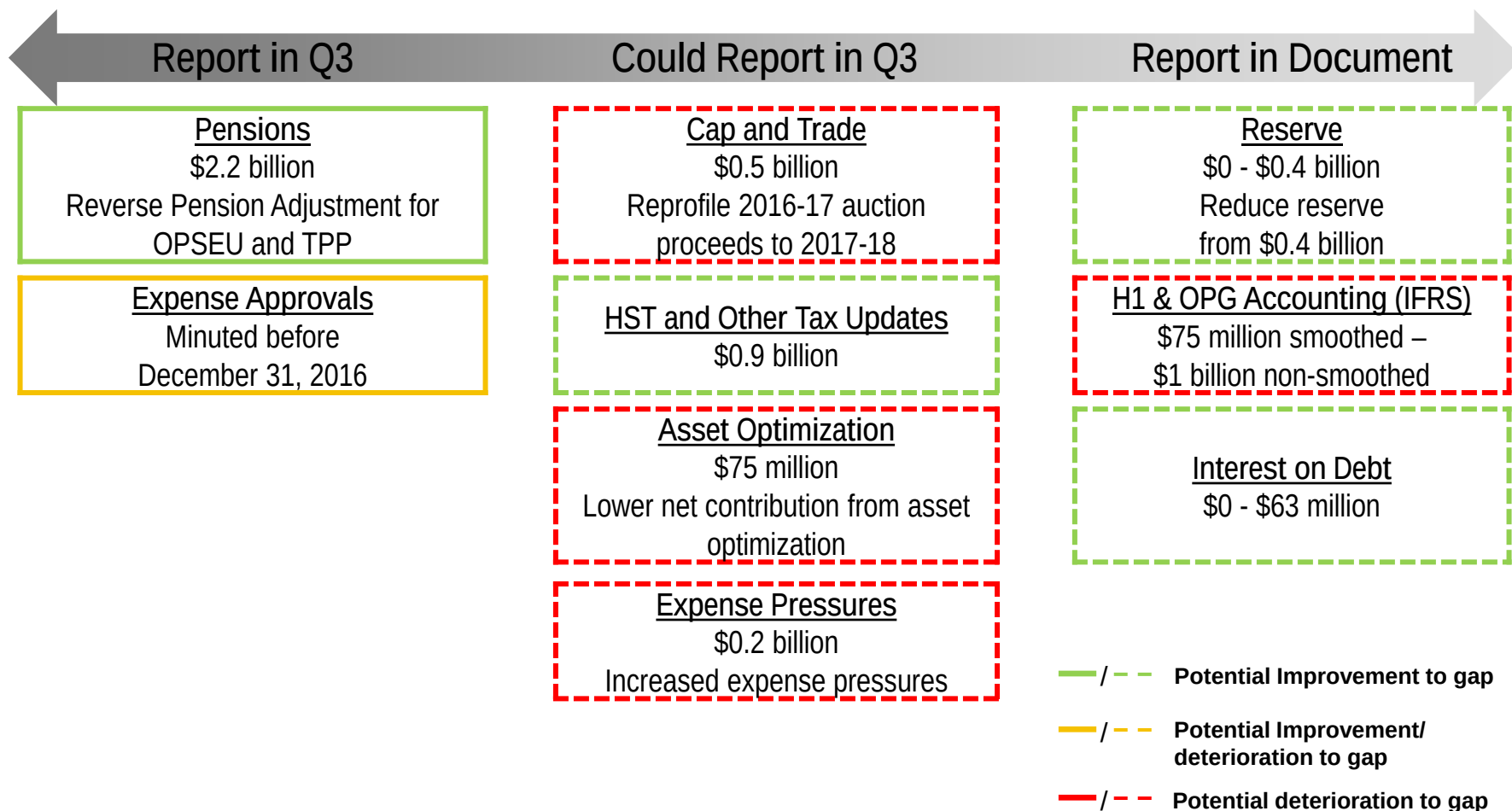
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
 - The report is expected to include advice that the net assets of government jointly sponsored pension plans should be recognized in the Province's financial statements.
 - If taken on, this would result in a positive fiscal impact to the government's outlook in all plan years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the Panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal of the pension adjustment to the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years.
- For consistency and comparability, an adjustment to the 2015-16 actuals will be made to reflect the government's decision to adopt the Panel's recommendations. The adjustment to historical results impacts the previously reported net debt and deficit results as well as the net debt to GDP ratio.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Building Block Considerations

There are a number of considerations for whether key building blocks should be taken on in the Third Quarter Finances or deferred to the 2017 Document.

Could Report in Third Quarter Finances

Cap and Trade

- The Cap and Trade auction notice that was released on January 20 stating that certification will occur on April 3, 2017, and settlement shortly thereafter.
- Stakeholders (e.g. FAO and Auditor General) may question why the government has not updated its fiscal plan to reflect this change.

HST and Other Tax Updates

- HST updates have been received since the FES, and no further significant updates are expected in advance of the 2017 Document. Other tax information is not as certain and could require additional updates in the 2017 Document.
- Stakeholders are aware of the timing of these information flows and may question if updates are not taken on in Third Quarter Finances.

Asset Optimization

- Updating for revised estimated net contribution from Asset Optimization would build some deterioration into the outlook.
- There are changes / uncertainty on the expected potential gains and/or timing for the H1 Brampton (which has not yet closed), and Seaton Lands sales (still pending), and uncertainty on the final accounting net gains reported for H1 shares purchased by OPG, potentially necessitating additional updates in the 2017 Document.

Expense Pressures

- Ministry risks represent potential pressures in the fiscal plan, and are not typically included in Quarterly updates.
- However, it may be prudent to address expense pressures which may materialize before the 2017 Document.

Report in Document

Reserve

It is recommended that the reserve be maintained at its current level of \$0.4 billion, in order to mitigate any pressures that may arise before year-end.

H1 & OPG Accounting (IFRS)

Updated information on the potential fiscal impact of the move from U.S. GAAP to IFRS for Hydro One and OPG, is expected at the end of February.

Interest on Debt

Deferring improvements in the interest on debt forecast allows for upside potential in the 2016-17 interim results of the 2017 Document.

Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue

- Revisions to economic outlook
- Ongoing provincially-administered tax receipts
- Non-tax revenue updates from Ministry PRRT submissions
- Net income updates from government business enterprises
- Revisions to IFRS - US GAAP impacts for OPG and Hydro One

Expense

- Ministry Q3/interim submissions
- Consolidations and other technical adjustments
- Interest on debt forecast updates
- Contaminated sites liabilities
- Updated pension expense forecast

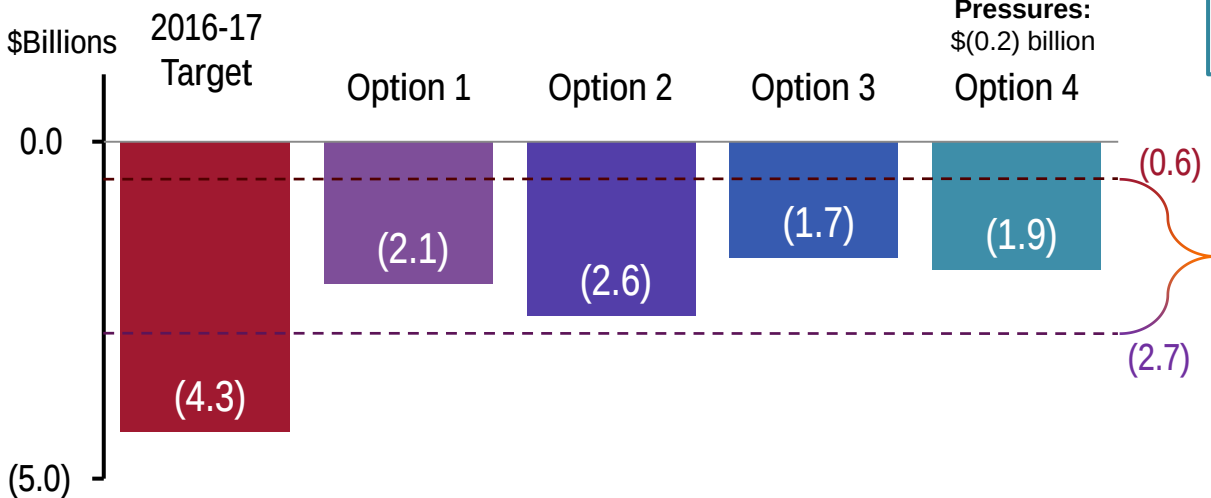
- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

2016-17 Third Quarter Finances: Deficit Range

Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes relative to FES .

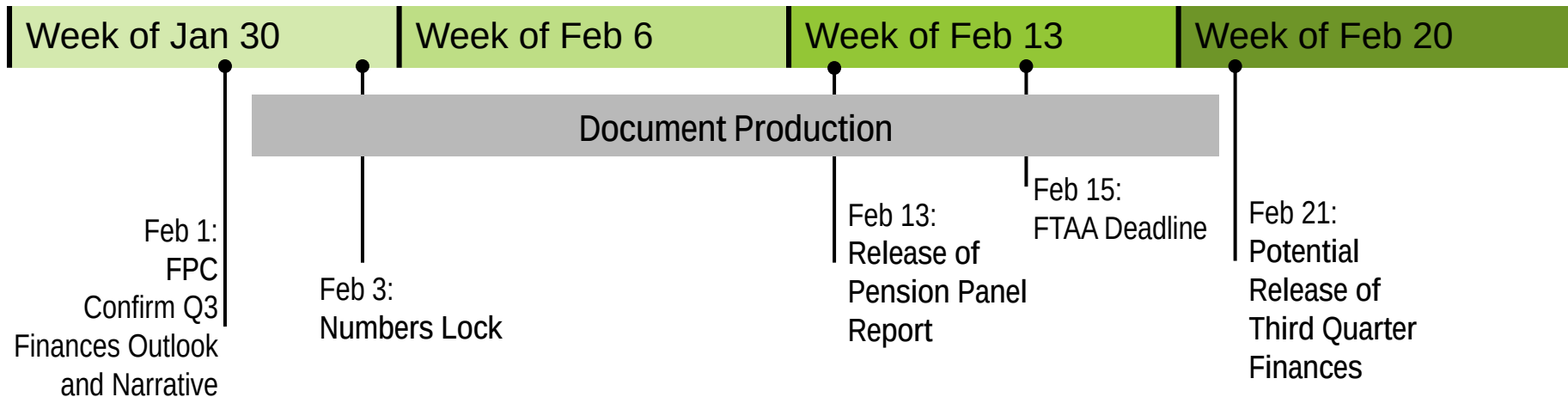
Option 1	Option 2	Option 3	Recommended Option 4
Pensions: \$2.2 billion	Pensions: \$2.2 billion	Pensions: \$2.2 billion	Pensions: \$2.2 billion
	Cap and Trade: \$(0.5) billion	Cap and Trade: \$(0.5) billion	Cap and Trade: \$(0.5) billion
		Asset Optimization: \$(0.1) billion	Asset Optimization: \$(0.1) billion
		HST & Other Taxes: \$0.9 billion	HST & Other Taxes: \$0.9 billion
			Expense Pressures: \$(0.2) billion

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes between now and the Budget.
- Based on current information and taking into account key building blocks, there are a number of options for presenting the Q3 deficit, ranging from \$2.6 billion to \$1.7 billion. These are on the medium-to-low end of what is being tracked for the interim outlook for the 2017 Document.



Range reflects an early-read of the 2016-17 end of year projection.

Next Steps

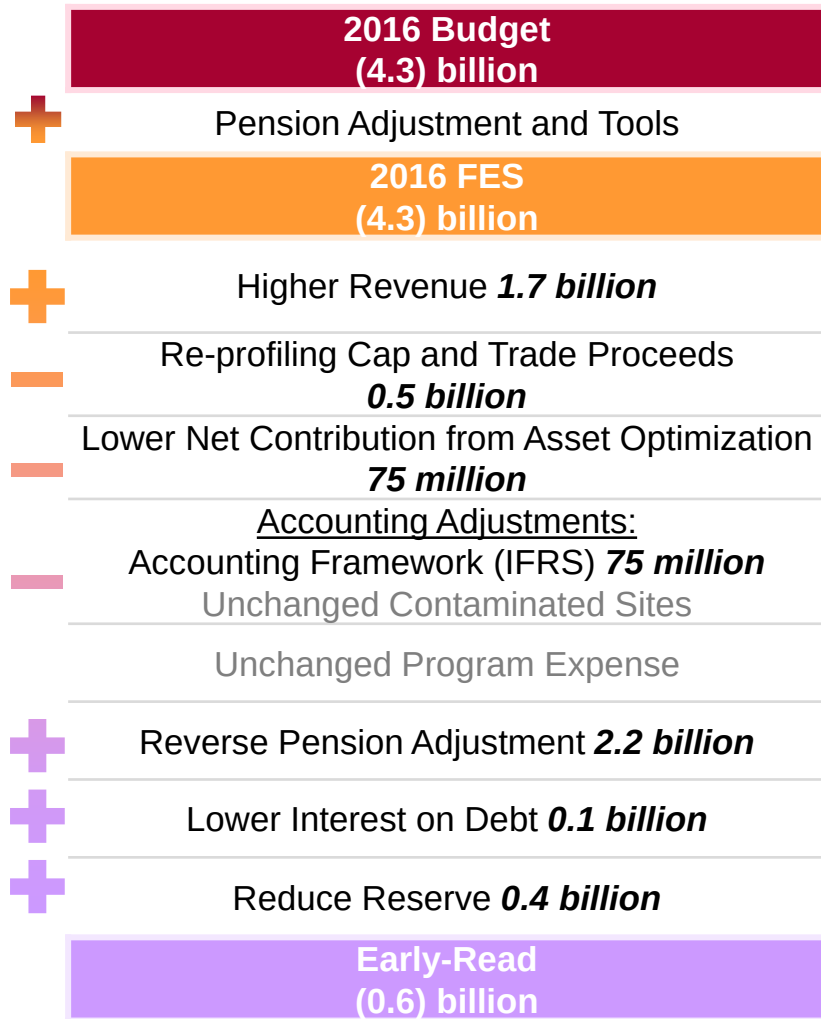


Appendix

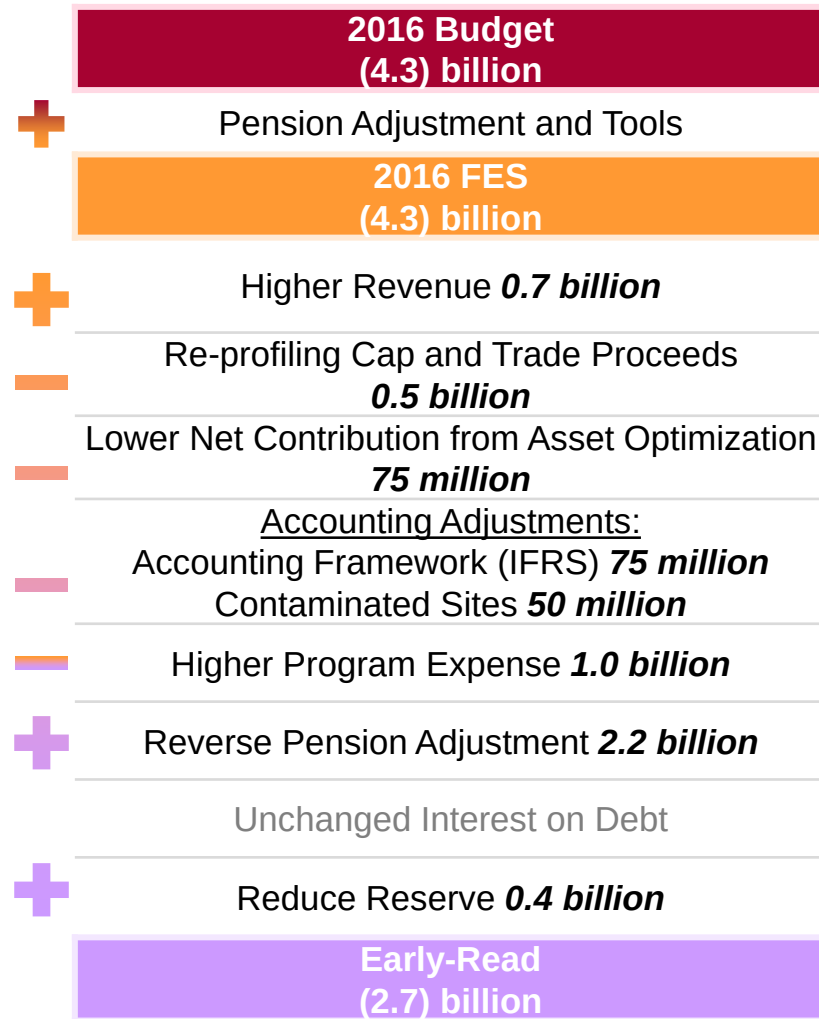
End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from \$0.6 billion (if there is a significant improvement to the outlook) to \$2.7 billion (if there is a moderate improvement to the outlook).

Significant Year-end Improvement



Moderate Year-end Improvement

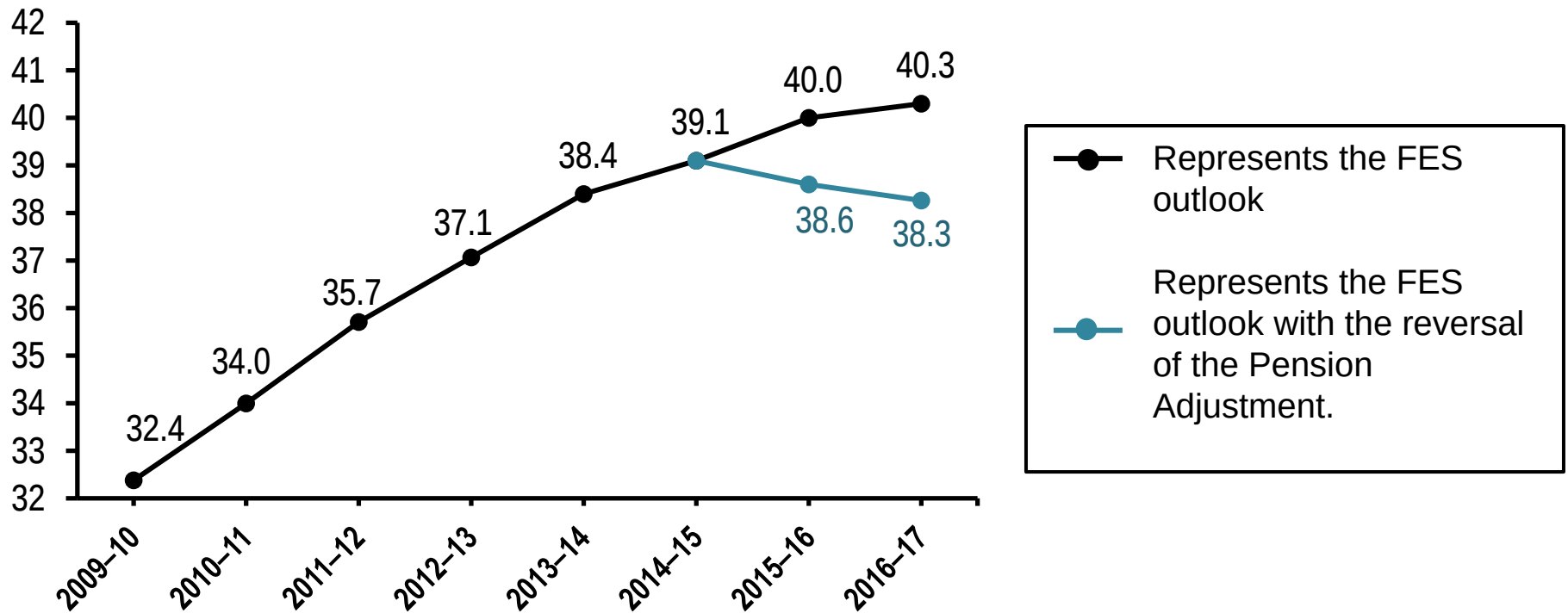


Net Debt-to-GDP With Pension Reversal (Option 1)

Narrative: The impact of the reversal will change the net debt projection for 2016-17 by \$12.8 billion. As a result, the government is projecting a net debt-to-GDP ratio of 38.3 per cent, an improvement compared to the 2016 FES projection of 40.3 per cent

- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the \$10.7 billion debt adjustment made in the 2015-16 Public Accounts

Per Cent

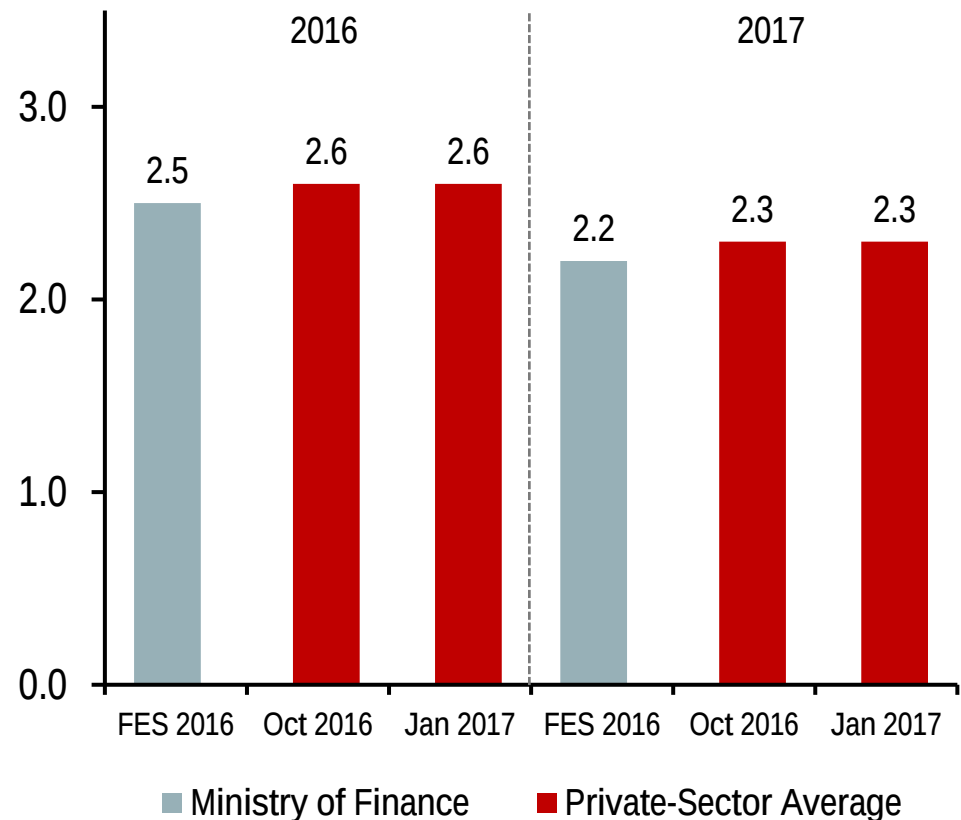


Recent Economic Developments and Outlook

Economic Update

- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
 - Higher exports and continued growth in household spending were the primary drivers of growth
- Information available so far for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains consistent with the 2016 FES forecast

Ontario Real GDP Growth Outlook
Per cent change



Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)

Fiscal Impact Relative to FES

	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	\$75M	\$425M	\$525M	\$675M	\$675M
High Impact (non-smoothed IFRS impact)**	\$1B	\$375M	\$400M	\$400M	\$400M

*** OPG's estimate of cumulative impact for 2015-2020 is \$2.5B under the preferred approach, and \$2.6B under the high impact approach.*

Note: Amounts are based on estimates currently available, and are subject to updates by OPG. Revised estimates are expected by March 1, 2017.

Program Expense Changes to Highlight

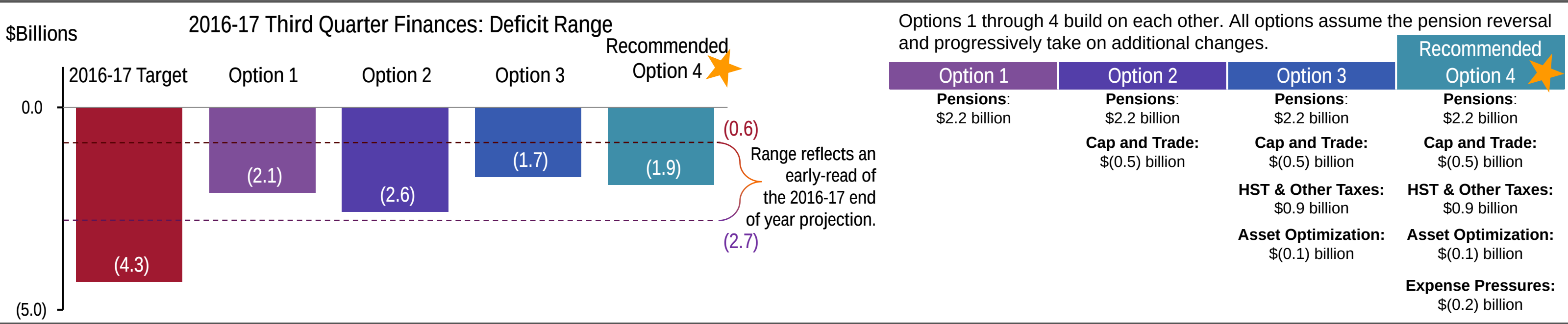
\$ Millions

2016-17

Program Expense Changes since the 2016 FES

MOHLTC Pausing planned increases to drug cost contributions*	106.0	<i>(pressure with no offset)</i>
MOHLTC Stem Cells and other priorities	95.4	<i>(pressure with no offset)</i>
MCYS: First Nations Prevention Services support	5.8	<i>(federal flow-through)</i>
MAG/MCSCS: Corrections Reform	10.4	<i>(offset from contingency fund)</i>
MCSCS: First Nations Policing Wage Parity	6.5	<i>(offset from contingency fund)</i>
Cabinet Office: International Disaster Relief Program – Haiti	0.3	<i>(offset from contingency fund)</i>
Contingency fund	<u>(17.2)</u>	
Program Expense Changes since the 2016	<u>207.2</u>	

* Alternatively, Social Assistance pressures of similar magnitude could be reported



Overall Narrative: *The strength of the Ontario economy, together with the government’s approach to fiscal management, is supporting strategic investments, while allowing the government to continue to beat its fiscal targets.*

Option 1 Reversal of Pensions			
\$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	2.1	132.7
Expense			
Programs	122.1	0.9	123.1
Interest on Debt	11.8	(0.4)	11.4
Total Expense	133.9	0.5	134.4
Surplus/(Deficit) Before Reserve	(3.3)	1.6	(1.7)
Reserve	1.0	(0.6)	0.4
Surplus/(Deficit)	(4.3)	2.2	(2.1)
Net Debt-to-GDP (Per Cent)	39.6	(1.3)	38.3
The government is projecting a deficit of \$2.1 billion in 2016-17, an improvement of \$2.2 billion since the 2016 Budget. The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that jointly-sponsored net pension asset be recognized in the Province’s financial statements. The government is adopting this recommendation, which aligns with the treatment originally included in the 2016 Budget plan. With this reversal, together with stronger revenue and lower interest on debt, the government is projected to beat its fiscal target.			

Option 2 Option 1 + Cap and Trade			
\$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	1.7	132.2
Expense			
Programs	122.1	0.9	123.1
Interest on Debt	11.8	(0.4)	11.4
Total Expense	133.9	0.5	134.4
Surplus/(Deficit) Before Reserve	(3.3)	1.1	(2.2)
Reserve	1.0	(0.6)	0.4
Surplus/(Deficit)	(4.3)	1.7	(2.6)
Net Debt-to-GDP (Per Cent)	39.6	(1.3)	38.3
The government is projecting a deficit of \$2.6 billion in 2016-17, an improvement of \$1.7 billion since the 2016 Budget. Cap and Trade is a cornerstone of the Province’s fight against climate change. Ontario’s first Cap and Trade auction is scheduled for March 22, 2017, and establishes Ontario’s partnership in the largest carbon market in North America. Revenues from Ontario’s first auction will be certified and settled at the beginning of the 2017-18 fiscal year. As such, the Third Quarter Finances reflect the re-profiling of auction proceeds from 2016-17 to 2017-18.			

Option 3 Option 2 + HST & Other Taxes + Assets			
\$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	2.5	133.1
Expense			
Programs	122.1	0.9	123.1
Interest on Debt	11.8	(0.4)	11.4
Total Expense	133.9	0.5	134.4
Surplus/(Deficit) Before Reserve	(3.3)	2.0	(1.3)
Reserve	1.0	(0.6)	0.4
Surplus/(Deficit)	(4.3)	2.6	(1.7)
Net Debt-to-GDP (Per Cent)	39.6	(1.4)	38.2
The government is projecting a deficit of \$1.7 billion in 2016-17, an improvement of \$2.6 billion since the 2016 Budget. Ontario’s economy continues to grow in an uncertain global environment. Stronger 2015 income tax assessment results and the continued strength of Ontario’s economy and housing market resulted in higher than forecasted taxation revenues.			

Option 4 Option 3 + Expense Pressures			
\$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	2.5	133.1
Expense			
Programs	122.1	1.1	123.3
Interest on Debt	11.8	(0.4)	11.4
Total Expense	133.9	0.7	134.6
Surplus/(Deficit) Before Reserve	(3.3)	1.8	(1.5)
Reserve	1.0	(0.6)	0.4
Surplus/(Deficit)	(4.3)	2.4	(1.9)
Net Debt-to-GDP (Per Cent)	39.6	(1.3)	38.3
The government is projecting a deficit of \$1.9 billion in 2016-17, an improvement of \$2.4 billion since the 2016 Budget. The government’s fiscally sound approach to managing the Province’s finances will help grow the economy, create jobs and ensure the sustainability of programs and services that help Ontarians in their everyday lives. This includes supporting strategic investments, such as funding for healthcare.			

From: Amara, Bruno (MOF) []
To: Wong, Elsa (MOF) [Elsa.Wong@ontario.ca]; Amare, Teshome (MOF) [Teshome.Amare@ontario.ca]
Subject: FW: Revenue for 2018-19 and 2019-20
Date: Monday, January 23, 2017 13:12:14
Attachment 1: Revenue Crosswalk.xlsx

fyi

From: Lindquist, Emma (MOF)
Sent: January 23, 2017 11:30 AM
To: Amara, Bruno (MOF)
Cc: Inglis, Liane (MOF)
Subject: Revenue for 2018-19 and 2019-20

Hi Bruno,

Sorry for the confusion about what's in the forecast when we were on the phone earlier – apparently I need a second coffee.

I've attached a high-level spreadsheet showing what we are picking up. It builds from Budget to FES and then layers on changes since (so everything that was reported in FES should be picked up here). You'll see at the very end that the OPG and H1 accounting change is hanging out below the line.

Hope that's clearer. Feel free to give me a call if you have questions.

Emma

7-0199

Evolution of Revenue (2016 Budget to Preliminary 2017 Document Outlook)

\$ Millions	2016-17	2017-18	2018-19	2019-20	2020-21
2016 Budget Revenue					
Taxation Revenues	91,819	95,948	100,200	106,152	110,582
Federal Payments	24,644	25,794	26,564	24,841	25,444
Government Enterprises	5,027	5,344	5,712	6,161	6,355
Other Non-Tax Revenues	9,099	10,643	9,444	8,399	8,321
2016 Budget Total Revenue	130,589	137,729	141,920	145,553	150,702
Changes from 2016 Budget to FES					
<i>Base Changes</i>					
Taxation Revenues	1,428	1,382	1,782	-	-
Federal Payments (including reversal of homecare)	(182)	(746)	(1,173)	-	-
Government Enterprises	(15)	-	-	-	-
Other Non-Tax Revenues	-	-	-	-	-
Total Base Changes	1,231	636	609	-	-
<i>Revenue Tools to Accommodate Pensions</i>					
Government Business Enterprises	200	200	200	-	-
Recoveries	100	100	100	-	-
Federal Transfers	-	700	1,100	-	-
CIT	300	460	670	-	-
HST	300	300	300	-	-
Total Revenue Tools to Accommodate Pensions	900	1,760	2,370	-	-
Total Changes from 2016 Budget to FES	2,131	2,396	2,979	-	-
2016 FES Revenue Outlook					
Taxation Revenues	93,847	98,090	102,952	106,152	110,582
Federal Payments	24,462	25,748	26,491	24,841	25,444
Government Enterprises	5,212	5,544	5,912	6,161	6,355
Other Non-Tax Revenues	9,199	10,743	9,544	8,399	8,321
Total 2016 FES Revenue Outlook	132,720	140,125	144,899	145,553	150,702
December TB/MBC Revenue Changes					
Economic Growth Outlook	-	(100)	(200)	-	-
Corporate Income Tax Assessments	300	100	100	-	-
Equalization	-	(700)	(800)	-	-
Total December TB/MBC Revenue Changes	300	(700)	(900)	-	-
January Revenue Changes					
Taxation Revenues (Primarily HST)	930	208	207	234	407
Equalization	-	73	(381)	(288)	(974)
Cap and Trade	(478)	(138)	(454)	(460)	(451)
Asset Optimization Targets	(75)	(325)	(420)	-	-
Pension Adjustment Tools - Taxation	-	-	-	670	670
Pension Adjustment Tools - GBE	-	-	-	200	200
Pension Adjustment Tools - Other NTR	-	-	-	100	100
Total January Revenue Changes	377	(182)	(1,049)	456	(48)

Evolution of Revenue (2016 Budget to Preliminary 2017 Document Outlook)

\$ Millions	2016-17	2017-18	2018-19	2019-20	2020-21
Current Revenue Outlook before IFRS Impact					
Taxation Revenues	95,077	98,298	103,059	107,056	111,659
Federal Payments	24,462	25,121	25,310	24,553	24,470
Government Enterprises	5,212	5,544	5,912	6,361	6,555
Other Non-Tax Revenues	8,646	10,280	8,670	8,039	7,970
Total Current Outlook before IFRS Impact	133,397	139,243	142,951	146,009	150,654
Consolidation of OPG and H1 - Smoothed IFRS impact	(75)	(425)	(525)	(675)	(675)
Total Current Outlook	133,322	138,818	142,426	145,334	149,979
Year-Over-Year Growth		4.1%	2.6%	2.0%	

From: Williams, Mark (MOF) []
To: Nicholson, Robert (MOF) [Robert.Nicholson@ontario.ca]
CC: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]; Anania, John (MOF) [John.Anania@ontario.ca]
Subject: RE: FES KMsv2
Date: Tuesday, October 25, 2016 14:25:10
Attachment 1: image001.png
Attachment 2: FES KMsv2.docx

From: Tarin, Ghufra (MOF)
Sent: October 25, 2016 2:07 PM
To: Nicholson, Robert (MOF)
Cc: Amara, Bruno (MOF); Anania, John (MOF); Williams, Mark (MOF)
Subject: FW: FES KMsv2
Importance: High

Hi Rob – Attached is the file Brian is referring to. Please make the necessary changes including Brian's below. To save time, please send it directly to Ryan Birks cc'ing me.

Thanks,

Ghufra

From: Lewis, Brian (MOF)
Sent: October-25-16 1:51 PM
To: Nicholson, Robert (MOF); Tarin, Ghufra (MOF)
Subject: Fw: FES KMsv2
Importance: High

Please look at this and get changes, including mine below, to OBT.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>

Sent: Tuesday, October 25, 2016 1:48 PM

To: Lewis, Brian (MOF); Veinot, Cindy (TBS)

Cc: Esmail, Selena (MOF)

Subject: RE: FES KMsv2

Awesome. Think they're looking for something in the next 30 minutes, apologies for that. If we can get it as accurate as possible, that would be great.

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

From: Lewis, Brian (MOF)

Sent: October-25-16 1:48 PM

To: Schuurman, Tim (MOF); Veinot, Cindy (TBS)

Cc: Esmail, Selena (MOF)

Subject: Re: FES KMsv2

We'll review. The language around stronger econ growth needs to be finessed... stronger _2016_ economic growth would be correct.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schuurman, Tim (MOF)

Sent: Tuesday, October 25, 2016 1:44 PM

To: Lewis, Brian (MOF); Veinot, Cindy (TBS)

Cc: Esmail, Selena (MOF)

Subject: FES KMsv2

Brian, Cindy

Not sure if you guys have a few minutes to review this, but our MO has provided some high level “key messages” that could applied to the option currently under consideration (revised Option 3). These are not necessarily lines we would build into the yellows, but language they think the Minister would use to explain the fiscal plan.

Can you guys have a quick look? We’ve tried to clean it up abit, but want to make sure it captures the right pieces before sending it back to them.

Think they are looking to see something soon. Let us know what you think.

Tim

Office of the Budget
MINISTRY of FINANCE

Confidential

With/~~without~~ revised deficit target

We are on track to ~~{meeting our deficit target this year}~~ and balancing the budget next year while helping to grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.

Earlier this fall, the Auditor General proposed that the government change its longstanding approach to ~~the~~ accounting policy for pension assets.

Quite unexpectedly, we found ourselves in the middle of an accounting ~~disagreement~~ ~~spute~~ ~~between over how the government~~ ~~we and previous Auditor~~ ~~Generals have accounted for pension assets over the past (14) years and the~~ ~~current~~ ~~Office of the Auditor General's view on how these assets should now be~~ ~~accounted for.~~ ~~and senior civil servants.~~

To provide clarity, we established an independent panel to review the issue and we are awaiting their report.

~~Given how recently this came to our attention,~~ ~~T~~the government only has a preliminary estimate of the potential impact the Auditor General's new interpretation would have on the Province's finances. The pension plans ~~have~~ ~~s~~ ~~have~~s not yet undergone an ~~updated~~ valuation this year ~~to determine what the current impact would be of applying the accounting change to future years.~~

Out of respect for the Auditor General, and pending the outcome of the panel's review process, we are using the Auditor's ~~proposed accounting approach and~~ ~~incorporating~~ preliminary estimates of the fiscal impact ~~into our numbers.~~

~~{The result is a higher deficit than originally planned for 2016-17 (\$4.8B).}~~

Even after accounting for the Auditor's new interpretation, we are on track to ~~{meet out 2016-17 deficit target}~~ and balance the budget in 2017-18 and 2018-19.

We are ~~able to manage~~ing the potential impact ~~as a result of~~through a combination of:

- ~~Higher than expected revenue projections, mainly arising from a stronger economic outlook for Ontario in 2016, and revised revenue assumptions~~
- ~~By using the reserve, which is included in the fiscal plan to protect the Province from unexpected changes in the numbers, funds~~

Confidential

Before the Auditor raised this issue, for the eighth consecutive year we were forecasting a lower deficit target than outlined in the Budget.

Our prudent approach to fiscal management coupled with ~~higher-stronger~~ than expected [economic](#) growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs.

[This is our mid-year update for this year.](#) We will provide an updated account of our fiscal plan in the 2017 Budget.

With current deficit target

Commented [ES1]: Comments as per the above

~~We are on track to meeting our deficit target this year and balancing the budget next year.~~

~~Our investments are helping to grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.~~

~~Since the 2016 Budget, the most significant change to our fiscal plan has resulted from the Auditor General's direction that the government changes its longstanding approach to accounting policy for pension assets.~~

~~Earlier this fall, we found ourselves quite unexpectedly in the middle of an accounting dispute between the Office of the Auditor General and senior civil servants.~~

~~To provide clarity, we established an independent panel to review the issue and we are awaiting their report.~~

~~The government only has a preliminary estimate of the potential impact the Auditor General's new interpretation would have on the Province's finances. The pension plan has not yet undergone a valuation this year.~~

~~Out of respect for the Auditor General and pending the outcome of the panel's review process, we are using the Auditor's preliminary estimates of the fiscal impact.~~

~~Even after accounting for the Auditor's new interpretation, we are forecasting that we will meet our deficit target of \$4.3B this year and are on track to balance the budget in 2017-18 and 2018-19.~~

Confidential

We are managing the potential impact through a combination of:

- revised revenue assumptions
- reserve funds

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Before the Auditor raised this issue, for the eighth consecutive year we were forecasting a lower deficit target than outlined in the Budget.

Our prudent approach to fiscal management coupled with higher than expected growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs.

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Revised Stronger revenue assumptions Outlook and Lower Interest on Debt Expense

What: Increase in taxation revenue and GBE revenue

Why:

- Real economic growth in 2015 and 2016 economic growth is expected to come in higher than anticipated at the time of the Budget.
- Stronger than anticipated personal and corporate income tax revenues, and continued strength in housing market which results in revenue as well.

Commented [ES2]: OEP to fill in?

Reserve funds Reserve

What: Using a portion of the reserve

Why:

- This is an unexpected change to the accounting treatment for pension assets that we have encountered for the first time in 14 years.
- The reserve is there to mitigate any unforeseen changes that will impact the fiscal plan -- such as this one.

Confidential

- We are more than halfway through the year, so we felt that this was an appropriate use of the reserve, rather than diverting spending away from our priorities such as health-care hospitals, electricity relief, investments in school buildings, and moving ahead with adding new childcare spaces.
- Reserves are for unforeseen circumstances

DRAFT

From: Tarin, Ghufan (MOF) []
To: Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]
CC: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]
Subject: RE: FES KMsv2
Date: Tuesday, October 25, 2016 15:05:43
Attachment 1: FES KMsv2 (3).docx

Hi Ryan – OEP made a few changes. Attached is the updated version.

Thanks,

Ghufran

From: Birks, Ryan (MOF)
Sent: October-25-16 2:03 PM
To: Tarin, Ghufan (MOF)
Subject: FW: FES KMsv2

Hi Ghufan,

Attached are the FES KMs that Tim sent earlier.

Thanks,

Ryan

From: Schuurman, Tim (MOF)
Sent: October-25-16 1:44 PM
To: Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Esmail, Selena (MOF)
Subject: FES KMsv2

Brian, Cindy

Not sure if you guys have a few minutes to review this, but our MO has provided some high level “key messages” that could applied to the option currently under consideration (revised Option 3). These are not necessarily lines we would build into the yellows, but language they think the Minister would use to explain the fiscal plan.

Can you guys have a quick look? We’ve tried to clean it up abit, but want to make sure it captures the right pieces before sending it back to them.

Think they are looking to see something soon. Let us know what you think.

Tim

Confidential

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To provide clarity, we established an independent panel to review the issue and we are awaiting their report.

Given how recently this came to our attention, The government only has a preliminary estimate of the potential impact the Auditor General's new interpretation would have on the Province's finances. The pension plans haves not yet undergone an updated valuation this year to determine what the current impact would be of applying the accounting change to future years.

Out of respect for the Auditor General, and pending the outcome of the panel's review process, we are using the Auditor's proposed accounting approach and incorporating preliminary estimates of the fiscal impact into our numbers.

{The result is a higher deficit than originally planned for 2016-17 (\$4.8B).}

Even after accounting for the Auditor's new interpretation, we are on track to {meet out 2016-17 deficit target} and balance the budget in 2017-18 and 2018-19.

We are able to manageing the potential impact as a result ofthrough a combination of:

- Higher than expected revenue projections, mainly arising from a stronger 2015 tax revenue performance and a strong 2016 housing econmarket improve the omie-outlook for Ontario in 2016, and revised revenue assumptions

Confidential

- By using the reserve, which is included in the fiscal plan to protect the Province from unexpected changes in the numbers, funds

Before the Auditor raised this issue, for the eighth consecutive year we were forecasting a lower deficit target than outlined in the Budget.

Our prudent approach to fiscal management coupled with higher-stronger 2015 tax revenue performance and strength in the 2016 housing market than expected economic growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs.

This is our mid-year update for this year. We will provide an updated account of our fiscal plan in the 2017 Budget.

With current deficit target

Commented [ES1]: Comments as per the above

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~~Out of respect for the Auditor General and pending the outcome of the panel's review process, we are using the Auditor's preliminary estimates of the fiscal impact.~~

Confidential

Even after accounting for the Auditor's new interpretation, we are forecasting that we will meet our deficit target of \$4.3B this year and are on track to balance the budget in 2017-18 and 2018-19.

We are managing the potential impact through a combination of:

- revised revenue assumptions
- reserve funds

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What: Using a portion of the reserve

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- This is an unexpected change to the accounting treatment for pension assets that we have encountered for the first time in 14 years.
- The reserve is there to mitigate any unforeseen changes that will impact the fiscal plan --, such as this one.
- We are more than halfway through the year, so we felt that this was an appropriate use of the reserve, rather than diverting spending away from our priorities such as health care hospitals, electricity relief, investments in school buildings, and moving ahead with adding new childcare spaces.
- Reserves are for unforeseen circumstances

DRAFT

From: Inglis, Liane (MOF) []
To: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]
CC: Lindquist, Emma (MOF) [Emma.Lindquist@ontario.ca]; Nicholson, Robert (MOF) [Robert.Nicholson@ontario.ca]; Lewis, Paul (MOF) [Paul.D.Lewis@ontario.ca]
Subject: RE: Q3 update
Date: Tuesday, January 24, 2017 19:43:01
Attachment 1: Q3Finances_Considerations_v5a.pptx

Hi Bruno – just to close the loop – this is the version we’re planning to table tomorrow. Sorry for the earlier confusion J

Let me know if you have any questions,

Liane

From: Amara, Bruno (MOF)
Sent: January 24, 2017 5:48 PM
To: Inglis, Liane (MOF)
Cc: Lindquist, Emma (MOF); Nicholson, Robert (MOF); Lewis, Paul (MOF)
Subject: RE: Q3 update

Thanks Liane

That sounds fine. So they are back in appendix in current version?

Bruno

From: Inglis, Liane (MOF)
Sent: January 24, 2017 5:46 PM
To: Amara, Bruno (MOF)
Cc: Lindquist, Emma (MOF); Nicholson, Robert (MOF); Lewis, Paul (MOF)
Subject: Re: Q3 update

Hi Bruno,

Thanks for pointing that out - we had removed all of the appendix slides in an earlier version and they hadn't made it back in. Because the eco and revenue slide aren't specifically a post-fes update but rather a possible q3 outlook - we've renamed them "potential q3 revenue outlook" and "potential q3 economic outlook".

Hope that works - definitely let me know if it doesn't.

Liane

From: Amara, Bruno (MOF)

Sent: Tuesday, January 24, 2017 5:17 PM

To: Inglis, Liane (MOF)

Cc: Lindquist, Emma (MOF); Nicholson, Robert (MOF); Lewis, Paul (MOF)

Subject: FW: Q3 update

Hi Liane

This is the latest Q3 deck we have. We notice that the econ and rev slides that we sent are not included and just want to check on this. Were these taken out on purpose? I can see that Slide 7 is perhaps replacing the separate revenue slide and providing a menu of options.

Thanks

Bruno

From: Lewis, Paul (MOF)
Sent: January 24, 2017 3:53 PM
To: Amara, Bruno (MOF); Nicholson, Robert (MOF); Anania, John (MOF)
Subject: FW: Q3 update

Did you already get?

From: Esmail, Selena (MOF)
Sent: January-24-17 3:48 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:

We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:

16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.

Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.

16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.

Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:

Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document

will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)

Sent: January-19-17 2:57 PM

To: Lewis, Paul (MOF); Cook, Tim (TBS); Doddiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)

Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)

Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Fiscal Strategy: Ontario's Third Quarter Finances Building Blocks

Office *of the* Budget
MINISTRY *of* FINANCE

Presentation to FPC on January 25, 2017

Preliminary Draft

Draft – January 24, 2017 6:00 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only**.

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

- The infrequent publication provides the government with some flexibility on how to present its fiscal update (i.e., update could be presented relative to the 2016 Budget, 2016 FES or both, as was done in 2012-13).

Key stakeholders like the Financial Accountability Officer and rating agencies will assess the fiscal outlook and narrative.

- Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

To **confirm the approach to publishing Ontario's Third Quarter Finances, including:**

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the Pension Panel's Report and recommendations.
- **Confirm release date** and determine if a letter to the Clerk is required.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances could present a fiscal update relative to the 2016 Budget or FES.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan		Change to FES	FES Outlook
\$ Billions	2016-17	2016-17	2016-17
Revenue	130.6	2.1	132.7
Expense			
Programs	122.1	3.1	125.3
Interest on Debt	11.8	(0.4)	11.4
Total Expense	133.9	2.7	136.6
Surplus/(Deficit) Before Reserve	(3.3)	(0.6)	(3.9)
Reserve	1.0	(0.6)	0.4
Surplus/(Deficit)	(4.3)	(0.0)	(4.3)

Total revenue changes of \$2.1 billion, consisting of:

- Base Forecast Change \$1.0 billion
- Reversal of Homecare \$(0.2) billion
- Federal Agreements \$0.4 billion
- Higher assumed revenue to accommodate pensions \$0.9 billion

Total expense changes of \$2.7 billion, consisting of:

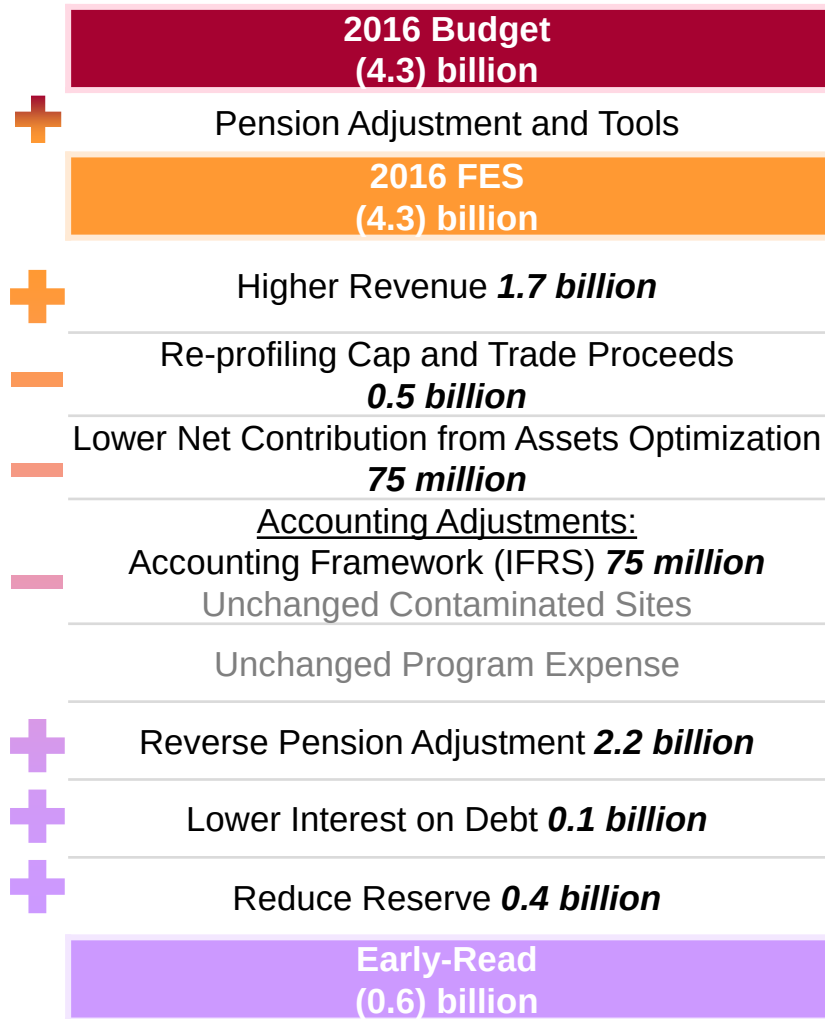
- In-Year Approvals \$0.2 billion
- Pension Adjustment of \$2.2 billion
- Electricity Cost Relief \$0.3 billion
- Support for Hospitals \$0.1 billion
- Green Investment Fund \$0.3 billion
- New Federal Agreements \$0.4 billion
- Contingency Fund Offsets \$(0.5) billion
- Interest on Debt Savings \$(0.4) billion

Change to the Reserve \$(0.6) billion

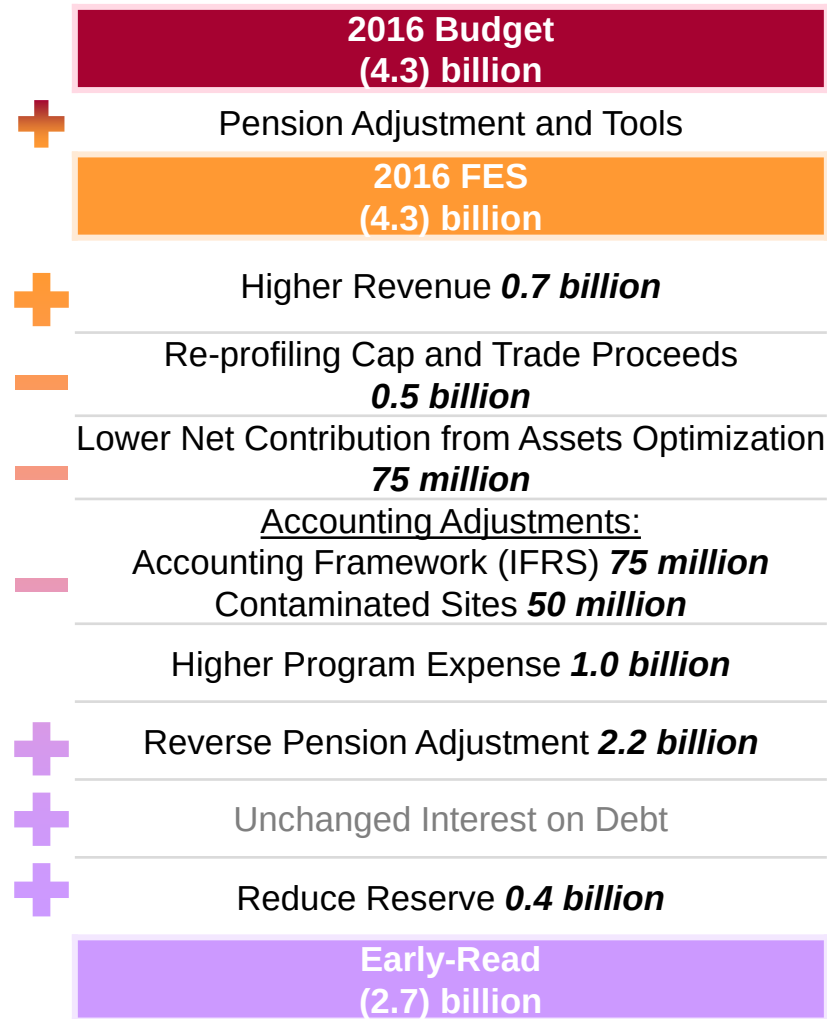
End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from \$0.6 billion (if there is a significant improvement to the outlook) to \$2.7 billion (if there is a moderate improvement to the outlook) by year end.

Significant Year-end Improvement



Moderate Year-end Improvement



Treatment of Pension Adjustment

Panel Recommendation

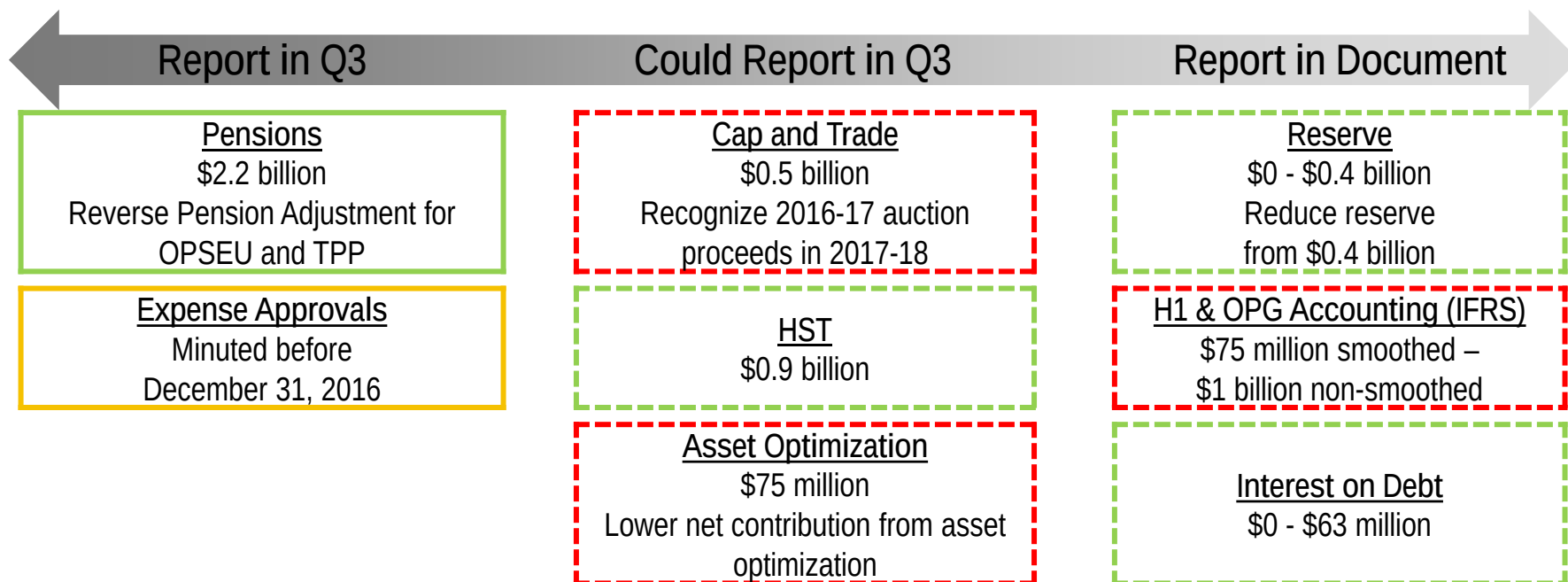
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
 - The report is expected to include advice that the net pension asset be recognized in the Province's financial statements.
 - If taken on, would result in a positive fiscal impact in all years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal of the Pension Adjustment will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years due to growing pressures.
- For consistency and comparability, an adjustment to the 2015-16 actuals may be required to reflect the government's decision to adopt the Panel's recommendations. The adjustment to historical results would impact the previously reported net debt and deficit results.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



— / — — Potential Improvement to gap

— / — — Potential Improvement/deterioration to gap

— / — — Potential deterioration to gap

Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue

- Revisions to economic outlook
- Ongoing provincially-administered tax receipts
- Non-tax revenue updates from Ministry PRRT submissions
- Net income updates from government business enterprises

Expense

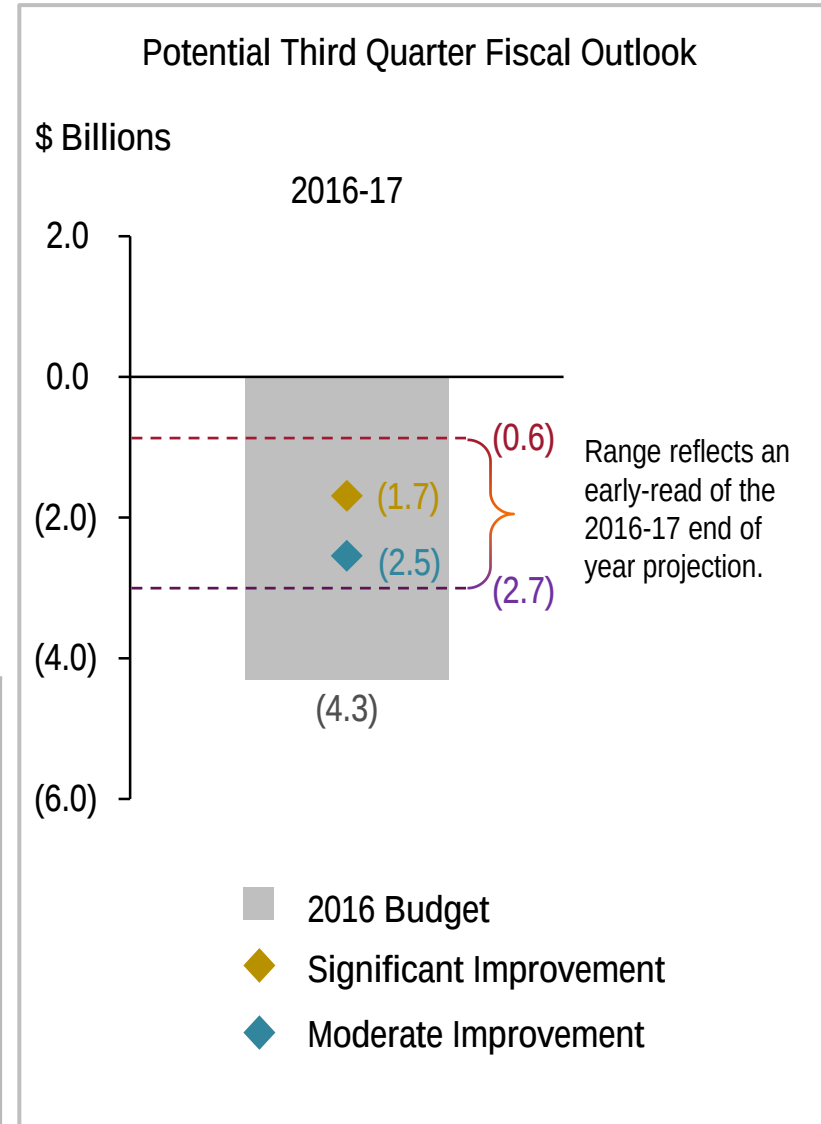
- Ministry Q3/interim submissions
- Consolidations and other technical adjustments
- Interest on debt forecast updates
- Contaminated sites liabilities
- Update pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Principles for the 2016-17 Outlook

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes that could adversely impact the Province's fiscal performance between now and the Budget, and ultimately, Public Accounts.
- For example, based on current information and taking into account key building blocks, Q3 could present a deficit ranging from \$2.5 billion (moderate improvement) to \$1.7 billion (significant improvement).

Moderate Improvement	Significant Improvement
Takes on the following key building blocks:	Takes on the following key building blocks:
Pensions \$2.2 billion Cap and Trade \$(0.5) billion	Pensions \$2.2 billion Cap and Trade \$(0.5) billion HST \$0.9 billion Asset Optimization \$(0.1) billion



Fiscal Narrative to Support Pension Reversal

The narrative could build on the 2016 FES, focusing on the investments the government is making in priority areas while remaining committed to balance the budget in 2017-18. This narrative would be further supported by highlighting the reversal of the pension adjustment, and could make room for announcements leading up to the release of the 2017 Document.

- *The government is projecting a **deficit of \$X.X billion in 2016-17**, an improvement of \$X.X billion since the 2016 Ontario Economic Outlook and Fiscal Review forecast.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that the net pension asset be recognized in the Province's financial statements.*
- ***The government is adopting the Panel's recommendation** by reversing the Pension Adjustment included in the 2016 Ontario Economic Outlook and Fiscal Review outlook. The reversal of the Pension Adjustment will result in a significant improvement in the 2016-17 outlook and could support additional investments in 2017-18 and beyond.*
- *The government is projected to beat its deficit target for the **eighth year in a row**.*
- *The impact of the reversal will change the net debt and accumulated deficit projections for 2016-17 by \$X.X billion and \$X.X billion, respectively. As a result, the government is projecting a net debt-to-GDP ratio of X.X per cent, an improvement of X.X percentage points compared to the 2016 FES.*

Decisions on Third Quarter Finances Fiscal Strategy

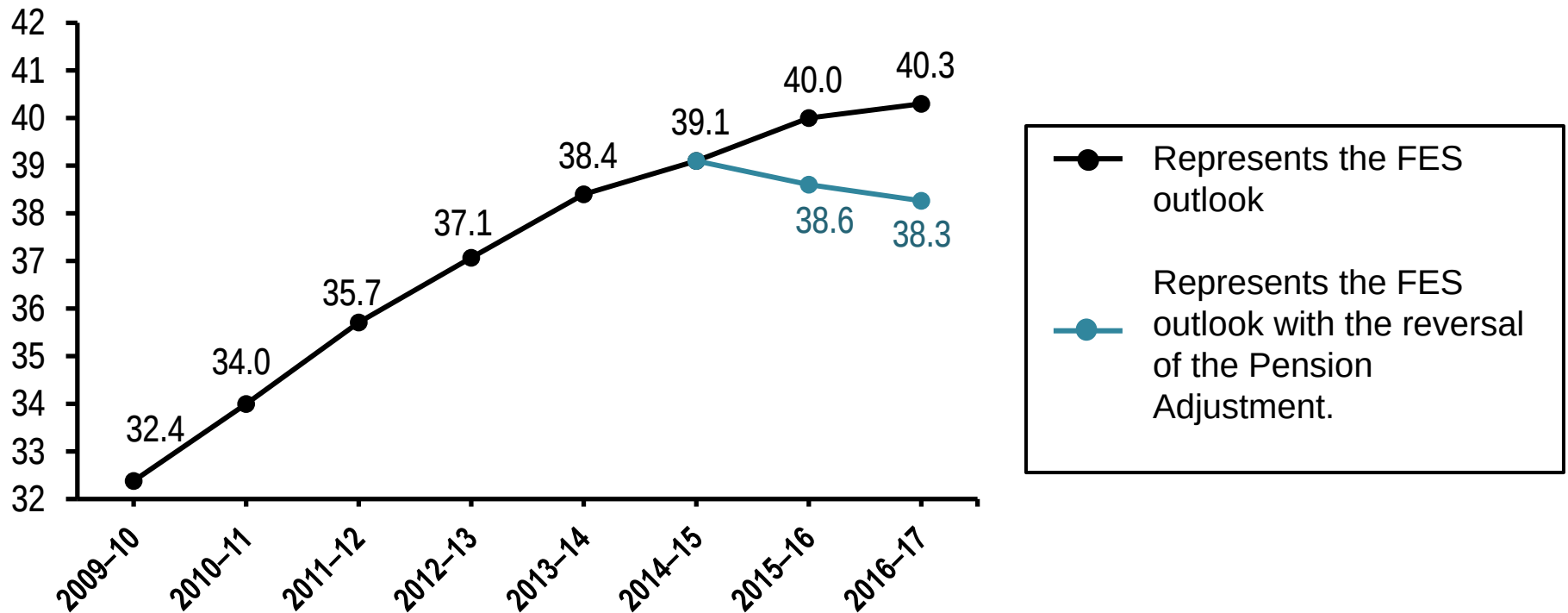
1. Seeking decision on the fiscal outlook and narrative to publish in the Third Quarter Finances.
2. Confirm **release date** and determine if a letter to the Clerk is required.
3. Communication and rollout approach with regards to the timing of the release of the Pension Panel's report and recommendations.

Appendix

Net Debt-to-GDP With Pension Reversal

- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the \$10.7 billion debt adjustment made in the 2015-16 Public Accounts

Per Cent

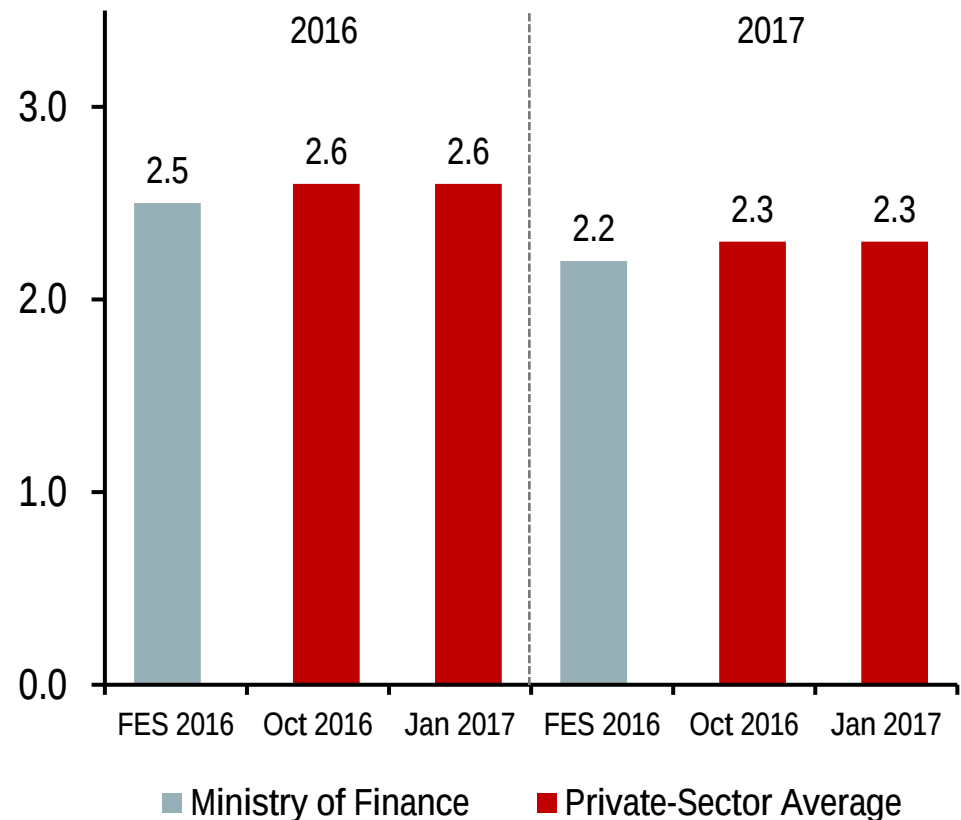


Potential Third Quarter Economic Outlook

Economic Update

- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
 - Higher exports and continued growth in household spending were the primary drivers of growth
- Information available so far for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains consistent with the 2016 FES forecast

Ontario Real GDP Growth Outlook Per cent change



Potential Third Quarter Revenue Outlook

Revenue Update

- Total revenues are \$0.5 billion higher than published at the time of the 2016 Fall Statement. Revenue updates include:
 - An increase in Sales Tax of \$0.9 billion reflecting revised federal entitlement estimates capturing Ontario's relatively strong economic and housing market growth.
 - Lower cap and trade proceeds this year reflecting a decision to report projected March 2017 auction proceeds in 2017-18 rather than 2016-17.

\$ Billions		2016-17
2016 FES Revenue Outlook		132.7
Changes Since 2016 FES		
January 5, 2016 from Dec 15, 2016		
Sales Tax		0.9
Cap and Trade Proceeds		(0.5)
Total Changes		0.5
Current Revenue Outlook		133.2

Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	\$75M	\$425M	\$525M	\$675M	\$675M
High Impact (non-smoothed IFRS impact)**	\$1B	\$375M	\$400M	\$400M	\$400M

*** OPG's estimate of cumulative impact for 2015-2020 is \$2.5B under the preferred approach, and \$2.6B under the high impact approach.*

From: Inglis, Liane (MOF) []
To: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]
CC: Lindquist, Emma (MOF) [Emma.Lindquist@ontario.ca]
Subject: RE: not in gap.pptx
Date: Saturday, January 07, 2017 12:24:12
Attachment 1: not in gap v2.pptx

Hi Bruno – thanks for the edits – we’ve taken them on and added in a little graphic to indicate whether the items have upside (indicated by green) or downside (red) risks. We’ve assumed all of the revenue could go either way (yellow). Let me know if we’ve got that wrong and we’ll revise accordingly. Sorry for sending this on the weekend – we definitely do not need a response before Monday J

Thanks!

Liane

From: Amara, Bruno (MOF)
Sent: January 6, 2017 4:19 PM
To: Inglis, Liane (MOF)
Cc: Lindquist, Emma (MOF)
Subject: not in gap.pptx

Hi

Suggested edits to risk slide. We will have something similar in our econ/revenue deck with a bit more detail.

Other Factors That Could Further Impact the Gap

Revenue

- Revisions to economic outlook
- Potential revisions to cap-and-trade proceeds based on auction results in 2017.
- Adjustments to the government's asset optimization strategy
- Remaining 2015 CIT & PIT tax assessment information and ongoing tax receipts from provincially administered taxes
- PRRT updates (revised revenue outlooks from ministries, agencies and government business enterprises)
- Implications of Federal Budget

Expense

- Additional electricity price relief
- 2017 Document initiatives
- Education remedy rollover
- Labour settlements
- Interest on debt forecast updates
- Alignment of climate change investments with available proceeds
- Impact of expense pressures that ministries have been asked to manage

Accounting risks:

- Treatment of Pension Assets
- IFRS
- Cap and Trade

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

From: Amara, Bruno (MOF) []
To: Inglis, Liane (MOF) [Liane.Inglis@ontario.ca]
CC: Lindquist, Emma (MOF) [Emma.Lindquist@ontario.ca]
Subject: RE: not in gap.pptx
Date: Monday, January 09, 2017 10:59:24
Attachment 1: not in gap v2.pptx

Hi

I added Equalization to the list. For now, yellow dots are appropriate. Remaining PIT CIT tax assessments may be green, but I'll wait to see how Brian wants to describe this. We're covering these as well in the Econ/Rev update.

Bruno

From: Inglis, Liane (MOF)
Sent: January 7, 2017 11:24 AM
To: Amara, Bruno (MOF)
Cc: Lindquist, Emma (MOF)
Subject: RE: not in gap.pptx

Hi Bruno – thanks for the edits – we've taken them on and added in a little graphic to indicate whether the items have upside (indicated by green) or downside (red) risks. We've assumed all of the revenue could go either way (yellow). Let me know if we've got that wrong and we'll revise accordingly. Sorry for sending this on the weekend – we definitely do not need a response before Monday J

Thanks!

Liane

From: Amara, Bruno (MOF)
Sent: January 6, 2017 4:19 PM

To: Inglis, Liane (MOF)
Cc: Lindquist, Emma (MOF)
Subject: not in gap.pptx

Hi

Suggested edits to risk slide. We will have something similar in our econ/revenue deck with a bit more detail.

Other Factors That Could Further Impact the Gap

Revenue

- Revisions to economic outlook
- Potential revisions to cap-and-trade proceeds based on auction results in 2017.
- Adjustments to the government's asset optimization strategy
- Equalization
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Accounting risks:

- Treatment of Pension Assets
- IFRS
- Cap and Trade

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

From: Lindquist, Emma (MOF) []
To: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]
CC: Inglis, Liane (MOF) [Liane.Inglis@ontario.ca]
Subject: Revenue for 2018-19 and 2019-20
Date: Monday, January 23, 2017 12:30:14
Attachment 1: Revenue Crosswalk.xlsx

Hi Bruno,

Sorry for the confusion about what's in the forecast when we were on the phone earlier – apparently I need a second coffee.

I've attached a high-level spreadsheet showing what we are picking up. It builds from Budget to FES and then layers on changes since (so everything that was reported in FES should be picked up here). You'll see at the very end that the OPG and H1 accounting change is hanging out below the line.

Hope that's clearer. Feel free to give me a call if you have questions.

Emma

7-0199

Evolution of Revenue (2016 Budget to Preliminary 2017 Document Outlook)

\$ Millions	2016-17	2017-18	2018-19	2019-20	2020-21
2016 Budget Revenue					
Taxation Revenues	91,819	95,948	100,200	106,152	110,582
Federal Payments	24,644	25,794	26,564	24,841	25,444
Government Enterprises	5,027	5,344	5,712	6,161	6,355
Other Non-Tax Revenues	9,099	10,643	9,444	8,399	8,321
2016 Budget Total Revenue	130,589	137,729	141,920	145,553	150,702
Changes from 2016 Budget to FES					
<i>Base Changes</i>					
Taxation Revenues	1,428	1,382	1,782	-	-
Federal Payments (including reversal of homecare)	(182)	(746)	(1,173)	-	-
Government Enterprises	(15)	-	-	-	-
Other Non-Tax Revenues	-	-	-	-	-
Total Base Changes	1,231	636	609	-	-
<i>Revenue Tools to Accommodate Pensions</i>					
Government Business Enterprises	200	200	200	-	-
Recoveries	100	100	100	-	-
Federal Transfers	-	700	1,100	-	-
CIT	300	460	670	-	-
HST	300	300	300	-	-
Total Revenue Tools to Accommodate Pensions	900	1,760	2,370	-	-
Total Changes from 2016 Budget to FES	2,131	2,396	2,979	-	-
2016 FES Revenue Outlook					
Taxation Revenues	93,847	98,090	102,952	106,152	110,582
Federal Payments	24,462	25,748	26,491	24,841	25,444
Government Enterprises	5,212	5,544	5,912	6,161	6,355
Other Non-Tax Revenues	9,199	10,743	9,544	8,399	8,321
Total 2016 FES Revenue Outlook	132,720	140,125	144,899	145,553	150,702
December TB/MBC Revenue Changes					
Economic Growth Outlook	-	(100)	(200)	-	-
Corporate Income Tax Assessments	300	100	100	-	-
Equalization	-	(700)	(800)	-	-
Total December TB/MBC Revenue Changes	300	(700)	(900)	-	-
January Revenue Changes					
Taxation Revenues (Primarily HST)	930	208	207	234	407
Equalization	-	73	(381)	(288)	(974)
Cap and Trade	(478)	(138)	(454)	(460)	(451)
Asset Optimization Targets	(75)	(325)	(420)	-	-
Pension Adjustment Tools - Taxation	-	-	-	670	670
Pension Adjustment Tools - GBE	-	-	-	200	200
Pension Adjustment Tools - Other NTR	-	-	-	100	100
Total January Revenue Changes	377	(182)	(1,049)	456	(48)

Evolution of Revenue (2016 Budget to Preliminary 2017 Document Outlook)

\$ Millions	2016-17	2017-18	2018-19	2019-20	2020-21
Current Revenue Outlook before IFRS Impact					
Taxation Revenues	95,077	98,298	103,059	107,056	111,659
Federal Payments	24,462	25,121	25,310	24,553	24,470
Government Enterprises	5,212	5,544	5,912	6,361	6,555
Other Non-Tax Revenues	8,646	10,280	8,670	8,039	7,970
Total Current Outlook before IFRS Impact	133,397	139,243	142,951	146,009	150,654
Consolidation of OPG and H1 - Smoothed IFRS impact	(75)	(425)	(525)	(675)	(675)
Total Current Outlook	133,322	138,818	142,426	145,334	149,979
Year-Over-Year Growth		4.1%	2.6%	2.0%	

From: Amara, Bruno (MOF) []
To: Inglis, Liane (MOF) [Liane.Inglis@ontario.ca]
CC: Lindquist, Emma (MOF) [Emma.Lindquist@ontario.ca]
Subject: not in gap.pptx
Date: Friday, January 06, 2017 17:18:44
Attachment 1: not in gap.pptx

Hi

Suggested edits to risk slide. We will have something similar in our econ/revenue deck with a bit more detail.

Other Factors That Could Further Impact the Gap

Revenue

- Revisions to the economic outlook
- 2017 Document Initiatives
- Potential revisions to cap-and-trade proceeds based on auction results during 2017
- Adjustments to the government's asset optimization strategy
- Remaining 2015 tax assessment information from personal and corporate income tax and ongoing tax receipts for provincially-administered taxes
- PRRT updates (revised revenue outlooks from ministries, agencies and government business enterprises)
- Implications of Federal Budget

Expense

- Additional electricity price relief
- 2017 Document initiatives
- Education remedy rollover
- New capital asks:
 - New facilities including Halton Consolidated Courthouse, correctional facilities, resources road labs
 - Funding to reduce GHG emissions and facilities renewal in government realty portfolio
- Interest on debt forecast updates
- Accounting:
 - Treatment of Pension Assets
 - IFRS
 - Cap and Trade
- Alignment of climate change investments with available proceeds
- Impact of expense pressures that ministries have been asked to manage

From: Inglis, Liane (MOF) []
To: Amara, Bruno (MOF) [Bruno.Amara@ontario.ca]
CC: Lindquist, Emma (MOF) [Emma.Lindquist@ontario.ca]
Subject: updated outstanding revenue pieces
Date: Thursday, January 05, 2017 21:24:34
Attachment 1: not in gap.pptx

Hi Bruno,

We've drafted up the attached slide to capture outstanding revenue pieces that are not currently accounted for in our fiscal gap (and will impact it one way or another when they come in). This slide will be included in next week's fiscal update decks. Would you mind taking a look at the left hand side and updating it; I expect you've received a bunch of this information so we no longer need to include it here. Is there anything we're missing?

Thanks very much,

Liane

Other Factors That Could Further Impact the Gap

Revenue

- Economic updates
- Outcome of cap-and-trade auction
- Adjustments to the government's asset optimization strategy
- Key revenue information including federal HST update, and Equalization entitlements, and finalization of PIT and CT assessments.
- Monthly updates to personal and corporate income tax and income from Government Business Enterprises
- Implications of Federal Budget
- [OEP to update]

Expense

- Additional electricity price relief
- 2017 Document initiatives
- Education remedy rollover
- New capital asks:
 - New facilities including Halton Consolidated Courthouse, correctional facilities, resources road labs
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