From:	Esmail, Selena (MOF)
To:	Gadi Mayman; Ronald Kwan
Cc:	Anna Strathy; Deena Padamadan; Birks, Ryan (MOF)
Subject:	FW: FAO''s Upcoming EFO Report
Date:	Friday, May 05, 2017 2:31:46 PM

Hi Gadi, Ron, am sending this to you as well on behalf of Tim. We will send the report along to you as well as soon as we receive it.

Thanks and have a great weekend.

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-05-17 10:22 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
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416.579.1465

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Sent: April 28, 2017 5:40 PM
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Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

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t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
www.fao-on.org<http://www.fao-on.org/>

From:	Esmail, Selena (MOF)
To:	Tim Cook (MOF); Andrea Dutton (MOF); Teuta Dodbiba (MOF); Raj Sharda (MOHLTC); Dorothy Cheung (MCYS); Gladys Miu (MOI); Paul Lewis (MOF); John Kim; Ken Kandeepan; Nadine Petsche (MOF); Ann Langleben (MOF); Kostas Plainos (MOF); Jeremie Stephenson (MOI); Mark Smith (MOF); Mersad Fard (MOI); Helen Graham (MOF)
Cc:	Daniel Tiburcio (MOF); Paul Ternamian (MOF); Birks, Ryan (MOF); Hosick, Sarah (TBS); Anna Strathy; Gavin He; Ghufran Tarin (MOF); Nina Arbabzadeh (EDU); Patrick Laughton (MOF); Patel, Lesley (MOF); Shannon Jack (MTO); David Goodwin (MOI); Manning, Catalina (TBS)
Subject:	FW: FAO"s Upcoming EFO Report
Date:	Friday, May 05, 2017 2:25:49 PM

Hi Everyone - this is a heads up that we expect to receive drafts of the economic and fiscal sections of the FAO's report Monday. I will send it around to folks soon after and the game plan for consolidating comments to meet their Tuesday deadline.

Thanks and have a great weekend everyone!

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From: David West [mailto:dwest@fao-on.org]
Sent: May-05-17 10:22 AM
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Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
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From:	Birks, Ryan (MOF)
To:	Anna Strathy; Gavin He
Subject:	FW: FAO"s Upcoming EFO Report
Date:	Monday, May 08, 2017 10:48:45 AM
Attachments:	EFO - Economic vMOF.docx EFO - Fiscal vMOF.docx

Hi Anna and Gavin,

Forwarding this for your attention/review as well. FAO is looking for commentary by EOD tomorrow. Note, the password is FAO1616.

Thanks,
Ryan

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-08-17 10:24 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: FAO's Upcoming EFO Report

Good Morning,

Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
The chapters are password protected using the same password as in the past.

The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.

Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.

So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)

Thanks again for your support and assistance.

David West
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Economic and Fiscal Outlook

2017

Draft Report

Confidential Document

May 2017

Financial Accountability Office of Ontario

Economic Outlook

Overview

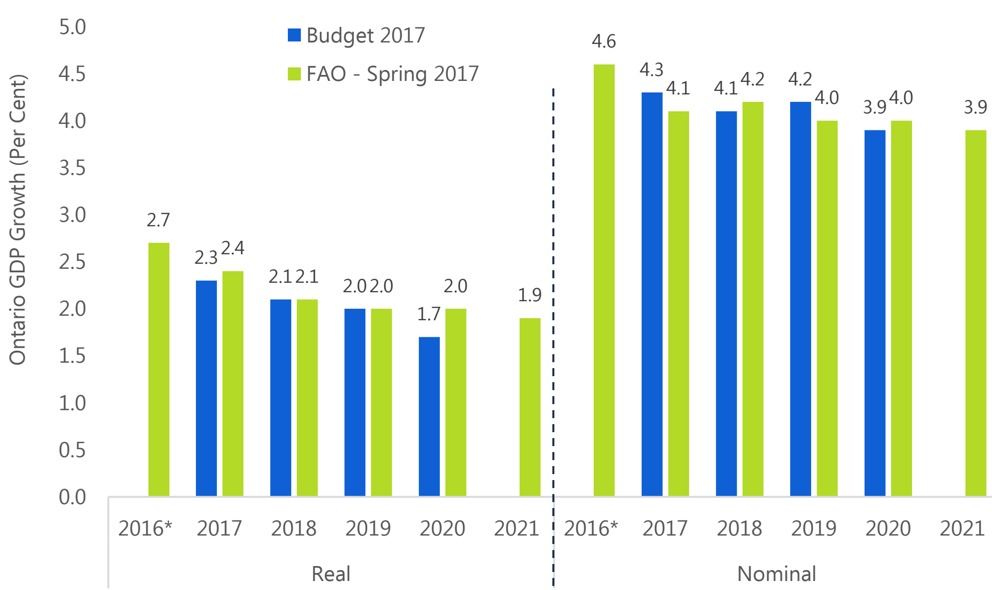
Ontario Economy Expected to Remain Strong in 2017

The Ontario economy finished 2016 with a strong 2.7 per cent increase in real GDP, reflecting solid growth in the second half of the year. Real GDP growth last year was significantly above the 2.1 per cent average gain seen from 2011 to 2015. Strong household spending, residential investment and exports contributed to the increase in real GDP in 2016.

Supported by the strong economic momentum in 2016 and continued improvement in economic indicators in the first quarter of 2017, the FAO is projecting real GDP to rise by 2.4 per cent in 2017 and 2.1 per cent in 2018.

Nominal GDP – the broadest measure of the tax base – increased by a robust 4.6 per cent in 2016. The FAO is projecting nominal GDP to increase by 4.1 per cent in 2017 and 4.2 per cent in 2018, reflecting solid gains in labour income and corporate profits.

Solid Economic Performance Expected Over Outlook



* 2016 are actuals

Source: Ontario Economic Accounts, Budget 2017 and FAO

Global Economy Gaining Momentum

In its latest World Economic Outlook,[1] the International Monetary Fund (IMF) is forecasting global economic growth to strengthen from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The IMF revised the outlook slightly higher for 2017, but left it unchanged for 2018, compared to its October 2016 outlook.[2]

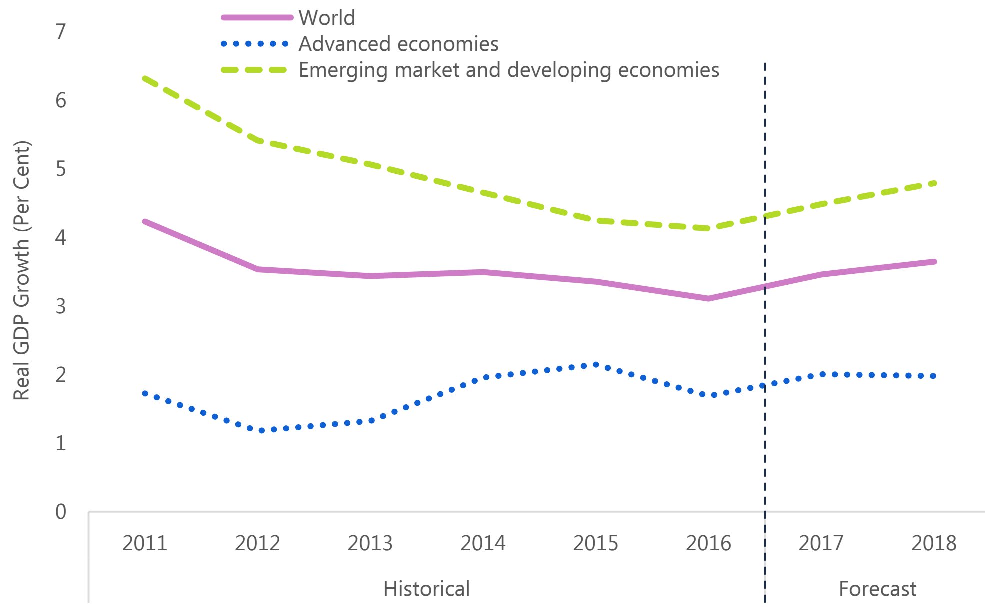
For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

Growth prospects for emerging market and developing economies are much more varied, but overall have weakened slightly from the IMF's October outlook, due to weaker economic conditions in key export markets. On average, the IMF has lowered its growth forecast for emerging markets and developing countries to 4.5 per cent in 2017, with 2018's forecast remaining unchanged at 4.8 per cent.

The IMF expects China – the world's second largest economy – to grow by 6.6 per cent in 2017 and 6.2 per cent in 2018, reflecting continued support from government policy. In the medium term, China's economic growth is expected to gradually moderate as its economy rebalances from investment and manufacturing-led growth to a more service-intensive economy.

[1] "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.
[2] "World Economic Outlook, October 2016: Subdued Demand: Symptoms and Remedies," October 2016, International Monetary Fund.

Global Growth to Improve in 2017



Source: "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund

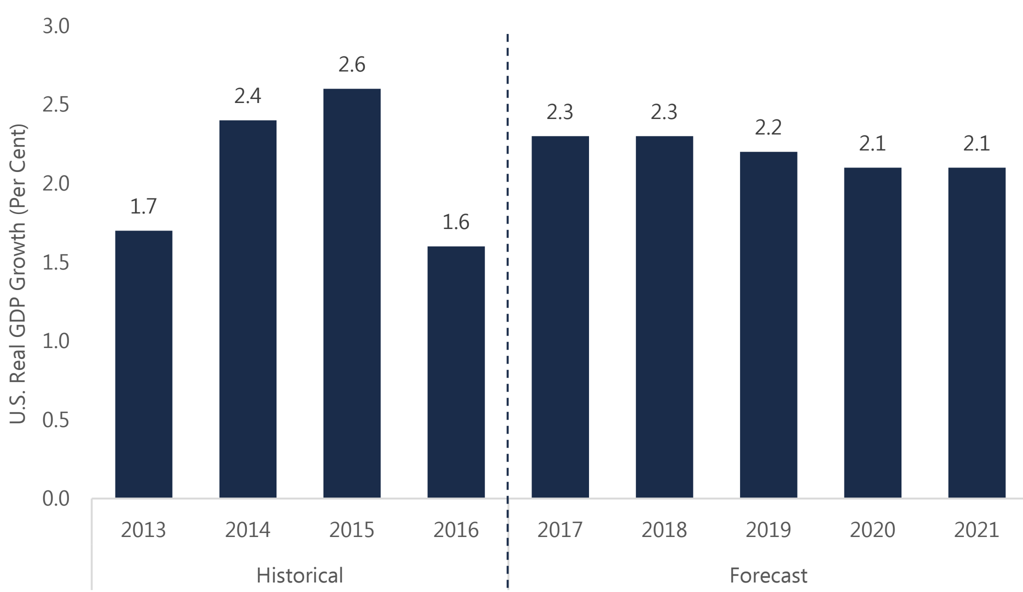
U.S. Economic Growth to Strengthen in 2017

U.S. real GDP advanced by a relatively moderate 1.6 per cent in 2016, the weakest increase in three years. For 2017 and 2018, the FAO projects U.S. growth to improve to 2.3 per cent, with household spending, business investment and residential construction being key contributors to overall growth.[3]

However, the lack of specific details on the new U.S. administration's proposed policies has raised the risks associated with the current U.S. outlook. Many forecasters are cautiously optimistic that some of the proposed fiscal policies, such as expected cuts to corporate tax rates, could boost U.S. economic growth in the short-term.[4] But this optimism is tempered by the potential for large future increases in the U.S. budget deficit, which could weigh on economic growth over the medium-term.

From 2019 to 2021, U.S. real GDP growth is projected to average 2.1 per cent annually, which is in-line with the average rate seen from 2012 to 2016.

U.S. Economic Growth Moderates Beyond 2017



[3] The FAO forecast for the U.S. economy in 2017 is based on the U.S. Congressional Budget Office's (CBO) latest forecast. For 2018 to 2021, the U.S. forecast is based on the average of the CBO outlook and the forecasts of three independent model-based forecasters – the Conference Board of Canada (CBOC), the Centre for Spatial Economics (C4SE) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.

[4] These forecasters include the IMF, CBO, TD Bank, RBC, BMO Capital Markets and National Bank Economics.

Source: Federal Reserve Bank of St. Louis, Congressional Budget Office and FAO Consensus

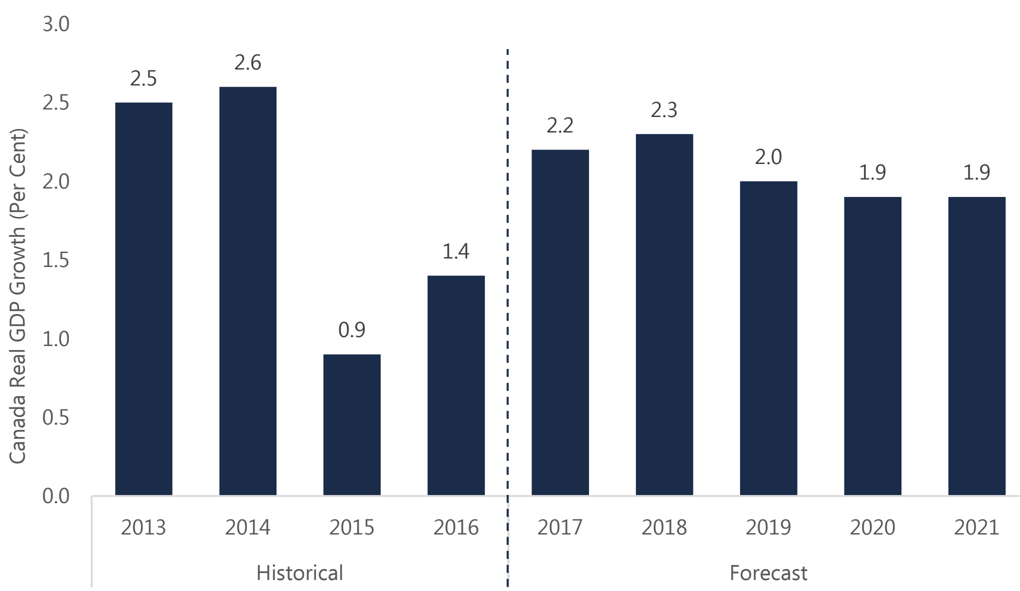
Canadian Economic Growth Expected to Rebound

The outlook for the Canadian economy has improved following strong growth over the second half of 2016.

Continued momentum in recent economic indicators point to a solid start for 2017. Canadian real GDP is currently projected to grow by 2.2 per cent in 2017 and 2.3 per cent in 2018, recovering from more moderate growth in 2015 and 2016.[5] Strength in household spending and non-energy exports are expected to contribute to overall growth in 2017 and 2018.

Beyond 2018, Canadian real GDP is projected to increase at an average annual rate of 2.0 per cent, as the economy continues to adjust to slower growth in the energy sector.

Canada GDP Growth Expected to Improve in 2017



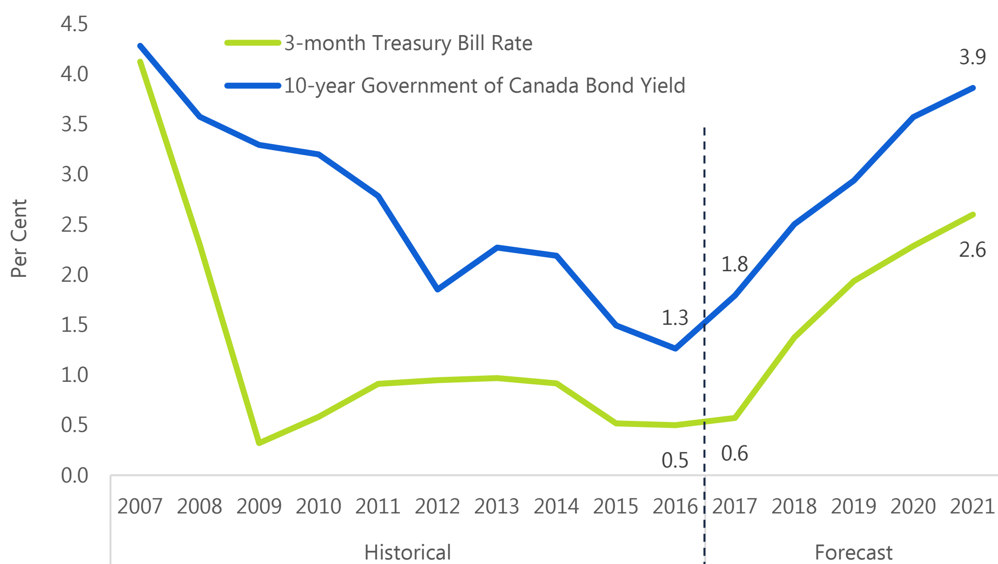
Source: Statistics Canada and FAO Consensus

[5] The FAO forecast for the Canadian economy is based on the average quarterly forecasts of two independent, model-based forecasters – the Conference Board of Canada (CBOC) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.

Based on the continuing recovery of the U.S. economy, and in particular the strength of U.S. labour markets, the U.S. Federal Reserve raised its key policy interest rate in March 2017.[6] In contrast, the Bank of Canada has remained more cautious about the underlying strength of the Canadian economy and as a result appears unlikely to raise its key policy interest rate before 2018.[7]

The FAO is projecting Canadian short-term interest rates will remain near current levels through 2017 and then begin rising modestly in 2018. Beyond 2018, interest rates are expected to gradually normalize with the 3-month Treasury Bill rate increasing to 2.6 per cent and the 10-year Government of Canada bond yield rising to 3.9 per cent by 2021.

Canadian Interest Rates to Rise over the Forecast



Source: Statistics Canada and FAO

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 75 cents U.S. in 2016 to about 81 cents U.S. by 2021, supported by the steady increase in short-term interest rates and a gradual rise in oil prices.

[6] The Federal Reserve raised its key policy rate, or the Federal Funds Rate, to 1.0 per cent on March 15, 2017.
[7] In its most recent monetary policy report, the Bank of Canada (BOC) indicated that it expects the output gap to close in early 2018. At the same time, the BOC noted that "there is still considerable uncertainty about the outlook," suggesting caution with regard to future changes in its policy interest rate. Bank of Canada Monetary Policy Report, April, 2017

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

Based on the Ontario Ministry of Finance's estimates,[8] Ontario real GDP rose by a strong 2.7 per cent in 2016, following equally strong gains of 2.5 per cent and 2.7 per cent in 2015 and 2014, respectively. Household spending, residential investment and exports were key contributors to overall economic growth last year. Business investment in plant and equipment disappointed expectations, declining by 4.0 per cent.

The performance of a number of economic indicators, including employment, retail sales and home sales remained solid in the first quarter of 2017. However, Ontario's merchandise export performance has been uneven so far in 2017.

Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited.[9] As a result, despite the projection for steady growth in the U.S. and a competitively valued Canadian dollar, Ontario's net exports[10] are projected to grow at a relatively moderate pace over the outlook.

The FAO is forecasting real GDP growth of 2.4 per cent in 2017, supported by strong household spending and residential investment.[11] The pace of Ontario's overall economic growth will moderate to 2.1 per cent in 2018 and to an average of 2.0 per cent over the last three years of the outlook.

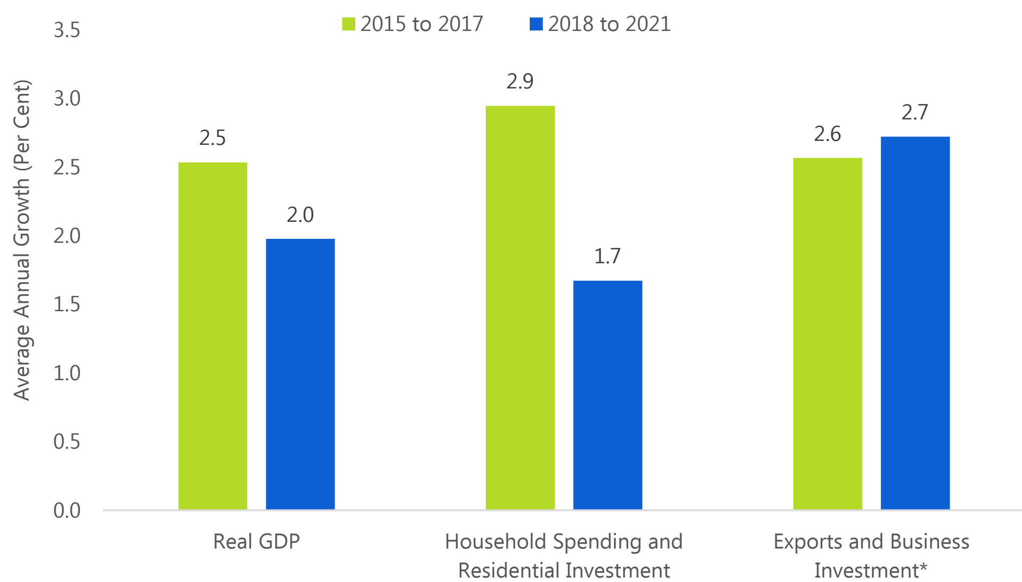
Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

The FAO forecast is broadly consistent with the consensus view among economists that exports and business investment will lead Ontario growth over the next several years, while household spending and residential investment will

[8] Ontario Economic Accounts, Fourth Quarter 2016, released April 13, 2017.
[9] As noted in a recent Conference Board of Canada report, nearly half of Ontario businesses are operating near or above capacity, hampering the ability of Ontario businesses to increase production to meet foreign demand. Conference Board of Canada Outlook, Winter 2017.
[10] Net exports are exports less imports of goods and services.
[11] The FAO forecast of the Ontario economy is based on the FAO's short-term quarterly model of the Ontario economy. For a description of the model, please refer to the textbox at the end of the Economic Outlook chapter.

grow at a more moderate pace, as households reduce borrowing to address high debt loads.

Exports and Business Investment Expected to Drive Economic Growth



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment
Source: Ontario Economic Accounts and FAO

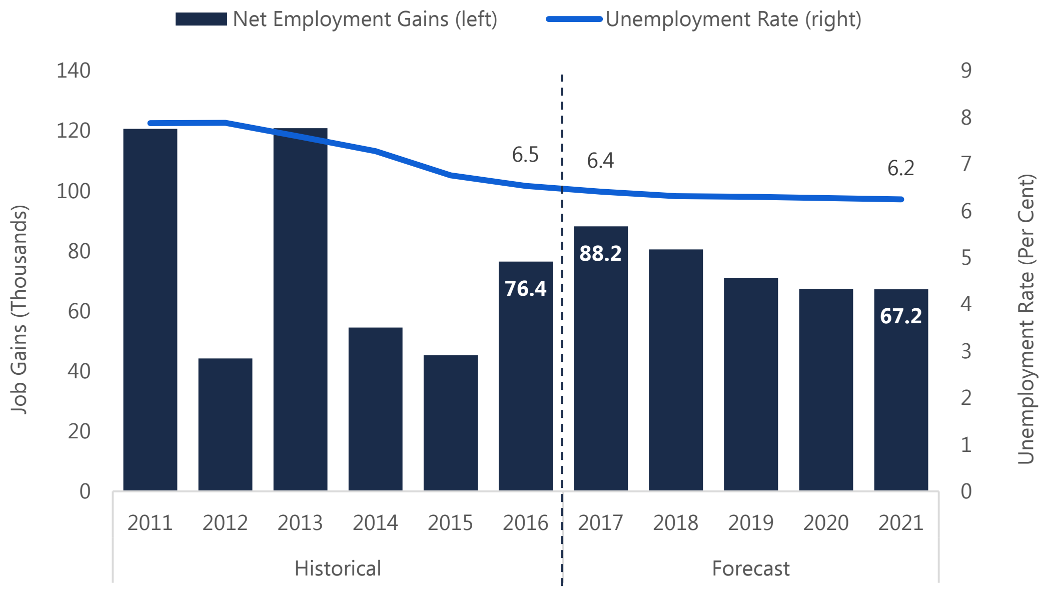
Steady Job Gains Over Outlook

Ontario experienced relatively strong employment growth of 1.1 per cent in 2016 (+76,400 net new jobs), the majority of which were full-time, private sector jobs. There was robust job growth in both goods and service producing industries. The construction industry in particular, posted the highest job growth (+3.4 per cent), followed by healthcare (+3.2 per cent).[12]

The strength in Ontario's labour market continued into 2017 with an increase of 99,600 jobs on a year-over-year basis during the first quarter. For the year, the FAO is projecting a 1.3 per cent gain in employment in 2017. On average, the FAO is forecasting average annual job gains of 1.0 per cent over the next four years, consistent with the outlook for solid economic growth.

[12] For a more detailed discussion on Ontario's labour market, see the FAO's Commentary: "Ontario Posts Solid 2016 Job Gain as the Labour Market Continues to Evolve."

Steady Employment Gains as Unemployment Rate Slowly Trends Lower



Source: Statistics Canada and FAO

Sustained economic growth over the outlook is expected to attract more workers into the labour force, which is forecast to rise at a slightly higher rate than over the last five years. Faster labour force growth from 2017 to 2021, will partially offset relatively strong employment gains, leading to a more moderate decline in the unemployment rate over the outlook.

Strong Gains Expected for Labour Income and Corporate Profits

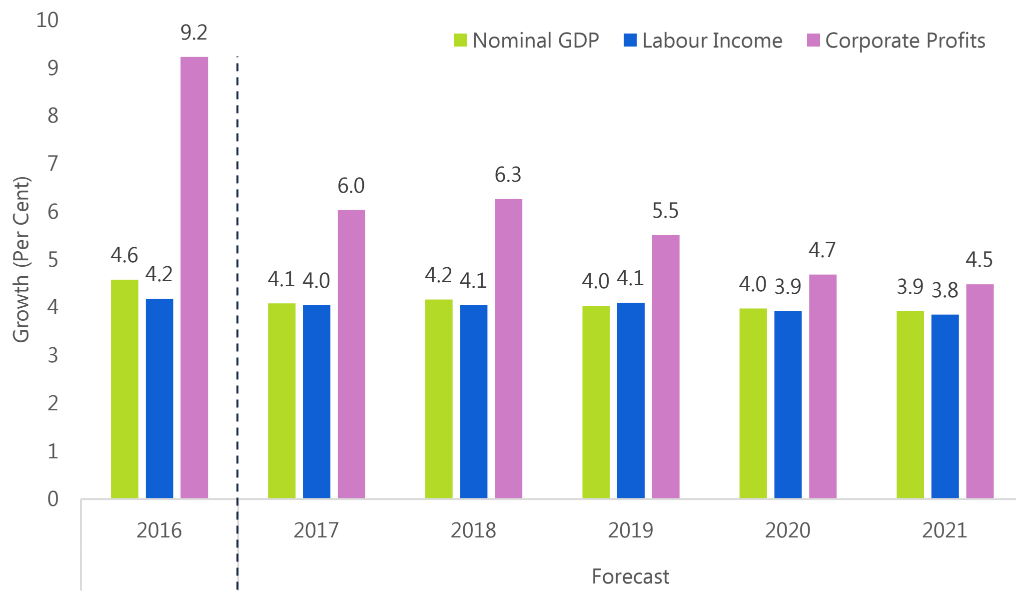
Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following an equally strong gain of 9.1 per cent in 2015.

As a result of the gains in labour income and corporate profits (which together account for about two-thirds of nominal GDP), nominal GDP grew by a strong 4.6 per cent in 2016.[13]

[13] The robust 2016 increase in nominal GDP was much stronger than the 3.4 per cent increase projected in both the FAO's Economic and Fiscal Outlook, Fall 2016 Update and the government's 2016 Economic Outlook and Fiscal Review. The sharp upward shift in 2016 nominal GDP growth reflects large historical revisions to 2015 and 2016 nominal GDP growth in the Ontario Economic Accounts, consistent with new data from Statistics Canada. In particular, the net operating surplus of corporations is now estimated to have increased by 9.2 per cent in 2016 compared to an original projection of 0.3 per cent last fall.

For 2017, the FAO is projecting a 4.1 per cent rise in nominal GDP, supported by strong gains in labour income (+4.0 per cent) and corporate profits (+6.0 per cent). On average, the FAO is projecting nominal GDP growth of 4.0 per cent over the 2018 to 2021 outlook.

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO

Key Risks for Ontario's Economic Outlook

The FAO's current economic forecast represents a reasonable outlook for the Ontario economy and an appropriate foundation for fiscal projections. However, several key risks could materialize leading to weaker than expected economic growth for the province.

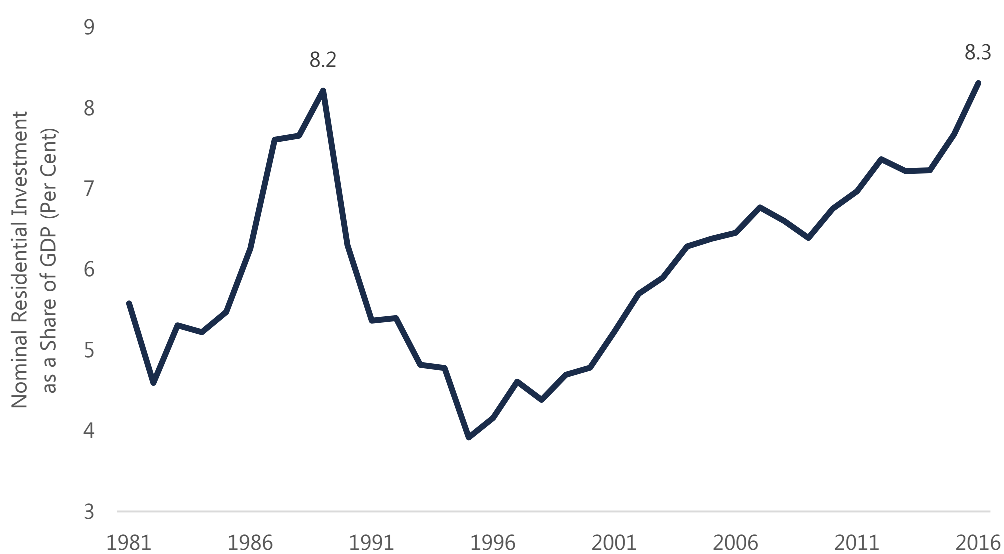
In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate tax rates and 'Buy America' executive orders, could harm Ontario's relative competitiveness, further discouraging business investment and limiting the contribution of exports to overall growth.

Domestically, the housing market continues to pose a significant risk to the overall economy. The sharp rise in Ontario housing prices – particularly in the

Greater Toronto Area – has contributed to record consumer debt loads and stretched levels of affordability.

At the same time, the relative importance of residential housing investment to the overall economy has increased substantially in recent years, posing a significant risk to the Ontario economy, in the event of a sharp housing market correction. In 2016, investment in residential housing accounted for a record high 8.3 per cent of Ontario's nominal GDP, up from 6.4 per cent in 2009.[14]

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO

The last time investment in residential housing accounted for a similar proportion of the economy was 1989, just prior to the 1990-1995 housing market correction.

A sharp correction in housing prices, exacerbated by the elevated levels of household debt, would negatively affect household spending and residential investment, and could lead to broader economy-wide impacts on growth and employment.

The Province recently announced a package of measures intended to respond to the underlying factors contributing to the unsustainable rise in housing prices

[14] Almost one-quarter (22 per cent) of the growth in nominal GDP in 2016 was directly attributable to the increase in residential investment spending.

and the rapid growth in housing market activity. However, it is too early to assess whether these measures will adequately address the imbalance between demand and supply pressures in the market.

The FAO's Quarterly Short-term Model of the Ontario Economy

The FAO has developed a short-term forecasting model to produce quarterly five-year projections of the Ontario economy. The model is based on dynamic equations for major sub-categories of real and nominal GDP. The model also includes key labour market components, financial variables and the Canada-U.S. dollar exchange rate. The model is structured around a number of important external or exogenous concepts such as Canada-wide economic growth, U.S. economic growth, U.S. prices, U.S. interest rates and energy prices.

The model is an important tool for the FAO's bi-annual Economic and Fiscal Outlook (EFO), ensuring internal consistency of each projection as well as consistency between EFO forecasts. It also provides the majority of the inputs required by the FAO's Fiscal Outlook Model which provides the FAO's projection of the government's fiscal position.

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Fiscal Chapter

May 8, 2017

Confidential Document

This document is confidential. It should not be shown or otherwise transmitted to anyone other than those who have been asked by the Financial Accountability Office of Ontario to provide comments.

Spring 2017

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1. Fiscal Outlook

Overview

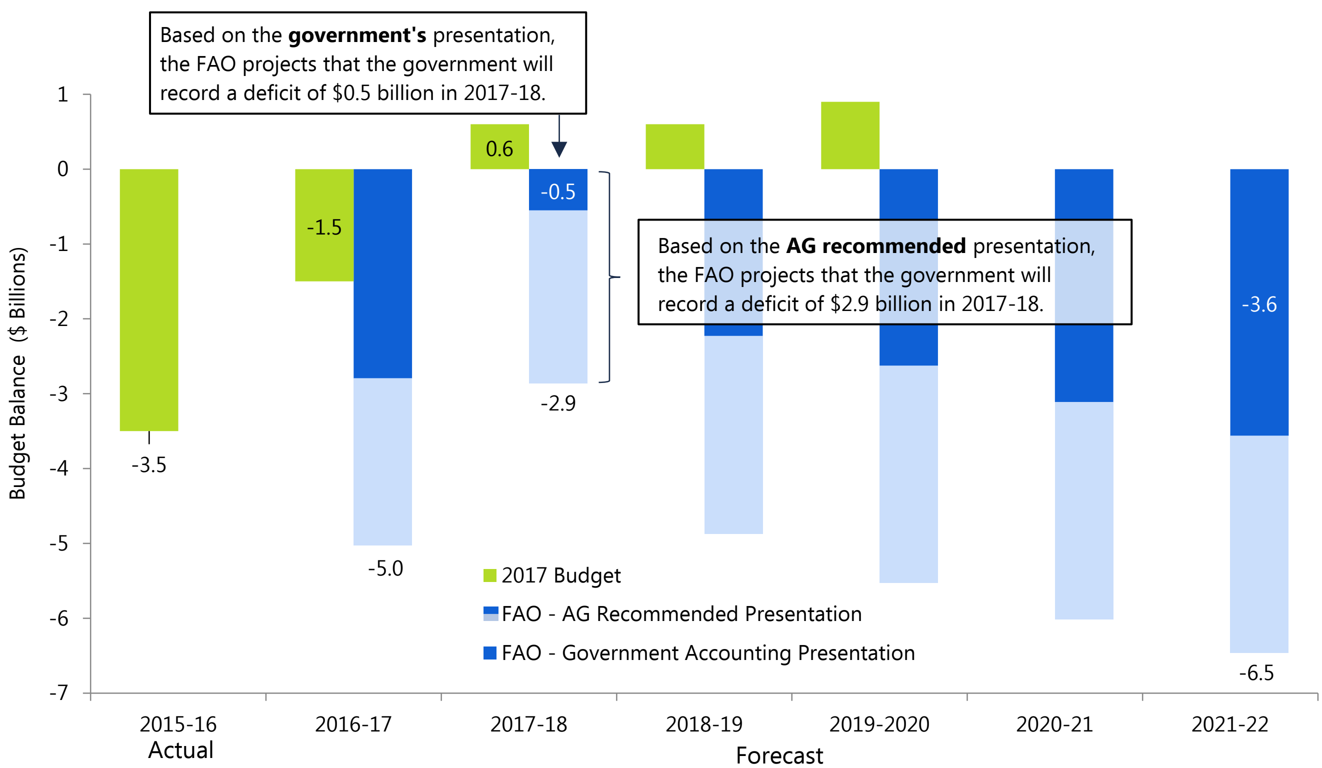
Continued Budget Deficits Projected

Based on the FAO's current economic forecast and updated fiscal information, the FAO is projecting continued Ontario budget deficits over the outlook. In the near term, the deficit improves due to strong tax revenue growth and a temporary boost to non-tax revenue. However, beginning in 2018-19, the deficit is expected to increase as a result of moderating revenue growth combined with higher expenses.

The government and the Auditor General (AG) disagree on the application of public sector accounting standards with respect to jointly-sponsored pension plans. Based on the Auditor General's recommended accounting presentation, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22. (Please refer to the discussion on page 8 for additional background and context on this issue.)

Based on the government's accounting presentation in the 2017 Budget, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22.[1] By comparison, the government is projecting a budget surplus (before the reserve) of $0.6 billion in 2017-18, followed by continued small surpluses over the next two years.

Ontario's Budget Balance*



* Budget balance excluding reserve.

Source: 2015-16 Public Accounts, 2017 Budget and FAO

[1] The Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts if the government continues to report the net pension assets of jointly sponsored pension plans in its financial statements.

On the government's accounting basis, the FAO projects that a balanced budget is within the government's reach in 2017-18. However, the budget deficit is expected to increase after 2017-18, due to moderate revenue growth, the absence of one-time non-tax revenues, and higher program expenses. Staying in balance after 2017-18 will likely require additional fiscal policy measures.

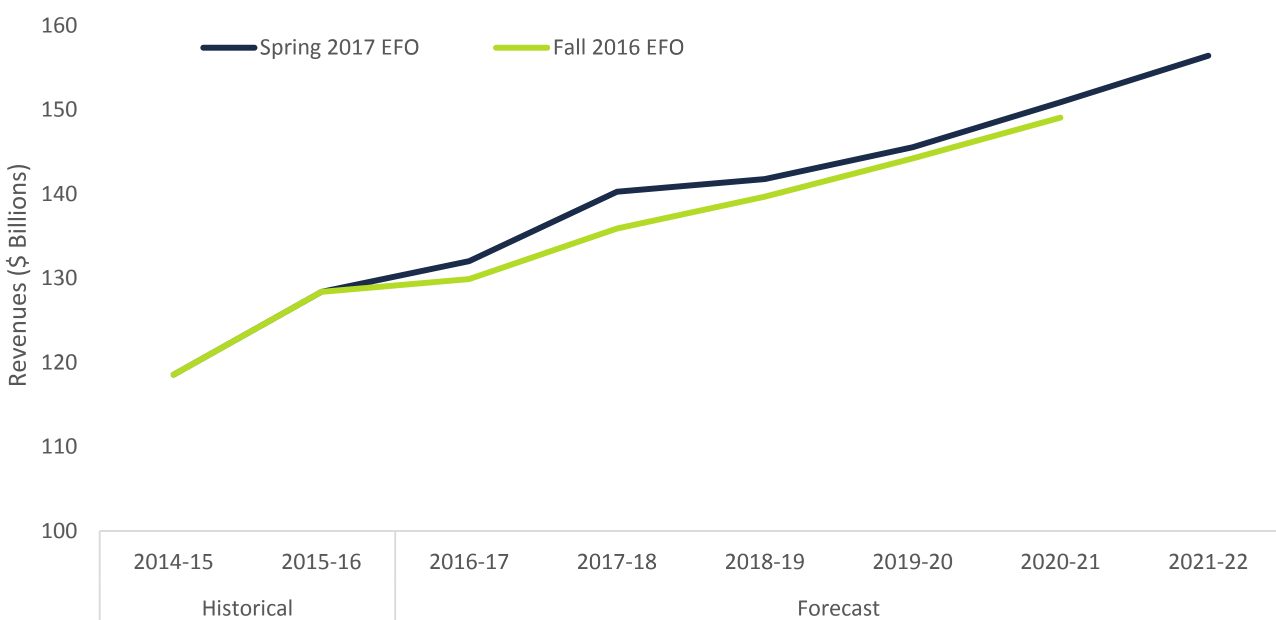
Under the Auditor General's accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget in 2017-18 without significant additional fiscal policy measures (that is, higher revenues or lower expense). Beyond 2017-18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.3 per cent per year from 2016-17 to 2021-22, in-line with the forecast from the FAO's fall outlook.

However, in the near-term, revenue growth is stronger than expected due to robust economic performance in 2016 and 2017, and a boost from one-time revenues in 2017-18. Beyond 2017-18, growth in tax revenues moderates and the benefit of one-time non-tax revenues ends.

Revenues Stronger Than Expected in Near Term



Source: FAO and Public Accounts

FAO Revenue Assumptions and Forecast

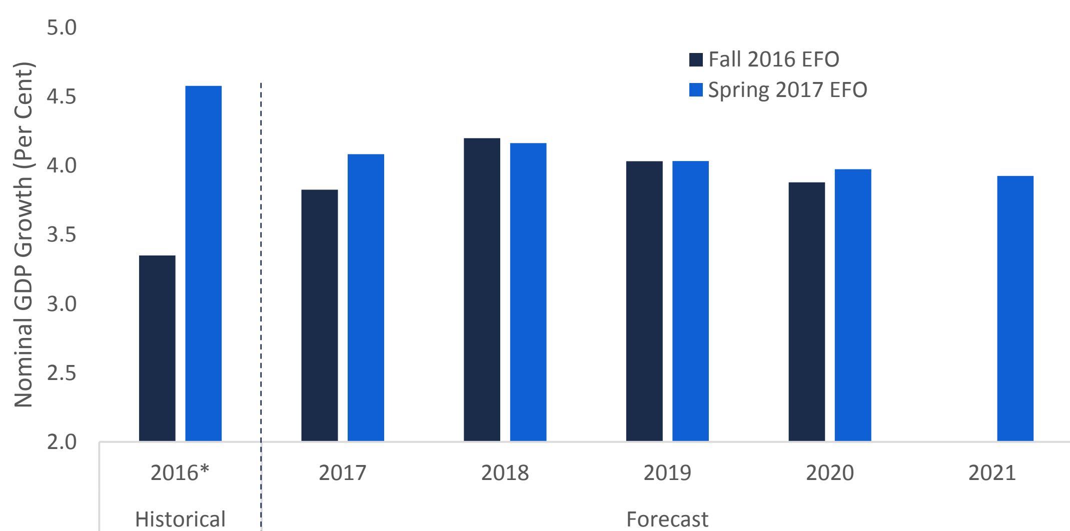
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household consumption.	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers are expected to grow by 1.9 per cent per year from 2016-17 to 2021-22
Government Business Enterprises	Based on government projections	Income from GBEs are projected to rise moderately from $5.3 billion in 2016-17 to $6.5 billion in 2021-22
Other Revenue	Based on government projections, includes asset sales, and cap and trade	These revenues are projected to increase from $8.5 billion in 2016-17 to $11.0 billion in 2017-18, declining to $8.5 billion by 2021-22

Stronger Economic Growth Expected to Boost Tax Revenue

Consistent with the FAO's economic forecast, the FAO is currently projecting tax revenues to rise at an average of 3.9 per cent from 2016-17 to 2021-22, much stronger than the 3.0 per cent forecast in the FAO's fall outlook.

Since the FAO's fall report, nominal GDP – the broadest measure of the tax base – was revised significantly higher in 2016, improving the forecast for 2017.[2] However, beyond 2017, the outlook for nominal GDP growth is relatively unchanged from the fall forecast.

Nominal GDP up Significantly in the Near-Term Since the Fall



* 2016 value for Fall 2016 EFO was the FAO's forecast at the time of the report's release.
Source: Ontario Economic Accounts and FAO

[2] See economic section, and the footnote on page 11.

Improving economic prospects in 2017 are expected to lift the Province's tax revenue by approximately $2.3 billion in 2016-17 and $4.1 billion in 2017-18, compared to the FAO's fall estimates.

- Personal income tax revenue is forecast to grow stronger than expected in the fall due to the improved forecast for labour income.[3]
- Corporations tax revenue is projected to benefit from the stronger outlook for corporate profits.
- Sales tax and land transfer tax revenues are expected to improve in 2016-17 and 2017-18 due to the on-going strength in Ontario's housing market.

Equalization Entitlement Declines

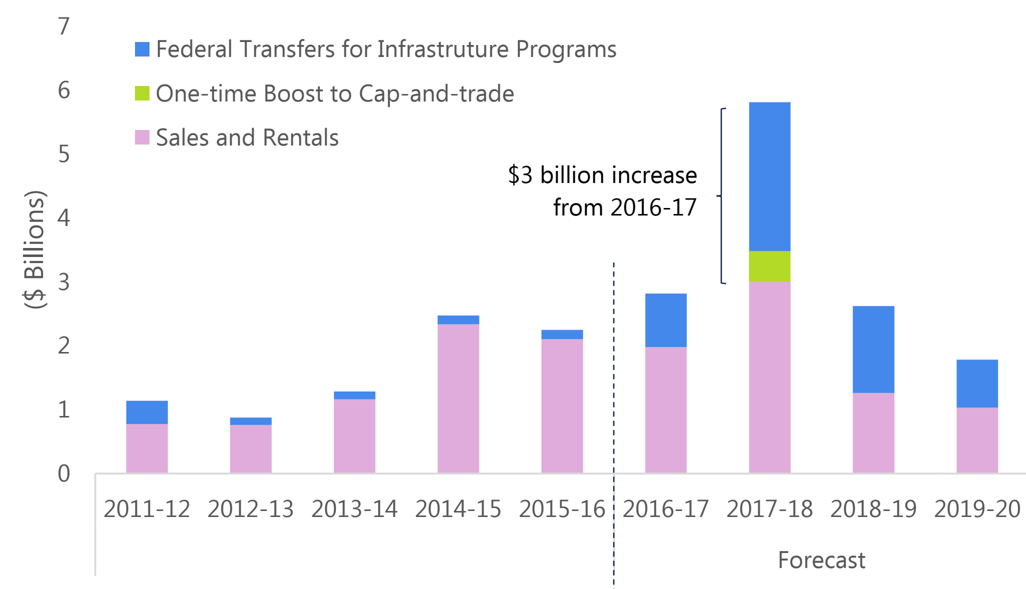
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18, and is projected to drop further to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments — a reflection of the continued relative strength of the Ontario economy.

2017-18 Revenues to Benefit from One-time Increases

Based on the 2017 Budget and incorporated into the FAO's projections, Ontario revenues will be boosted by $3.0 billion in one-time increases in 2017-18, including:

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion increase in sales and rentals revenue, suggesting significant additional asset sales; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in 2016-17.[4]

2017-18 Non-tax Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO

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[3] However, near-term revenue growth will be somewhat dampened as some high-income earners have shifted earnings into the 2015 tax year to avoid the new higher 33 per cent tax rate introduced by the federal government in 2016 (http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). The FAO continues to adopt the federal government's estimate of this income shifting, and has adjusted the personal income tax forecast accordingly.

[4] The government indicated that the cap and trade revenues will be recognized in 2017-18 because the allowances were certified and delivered on April 2, 2017.

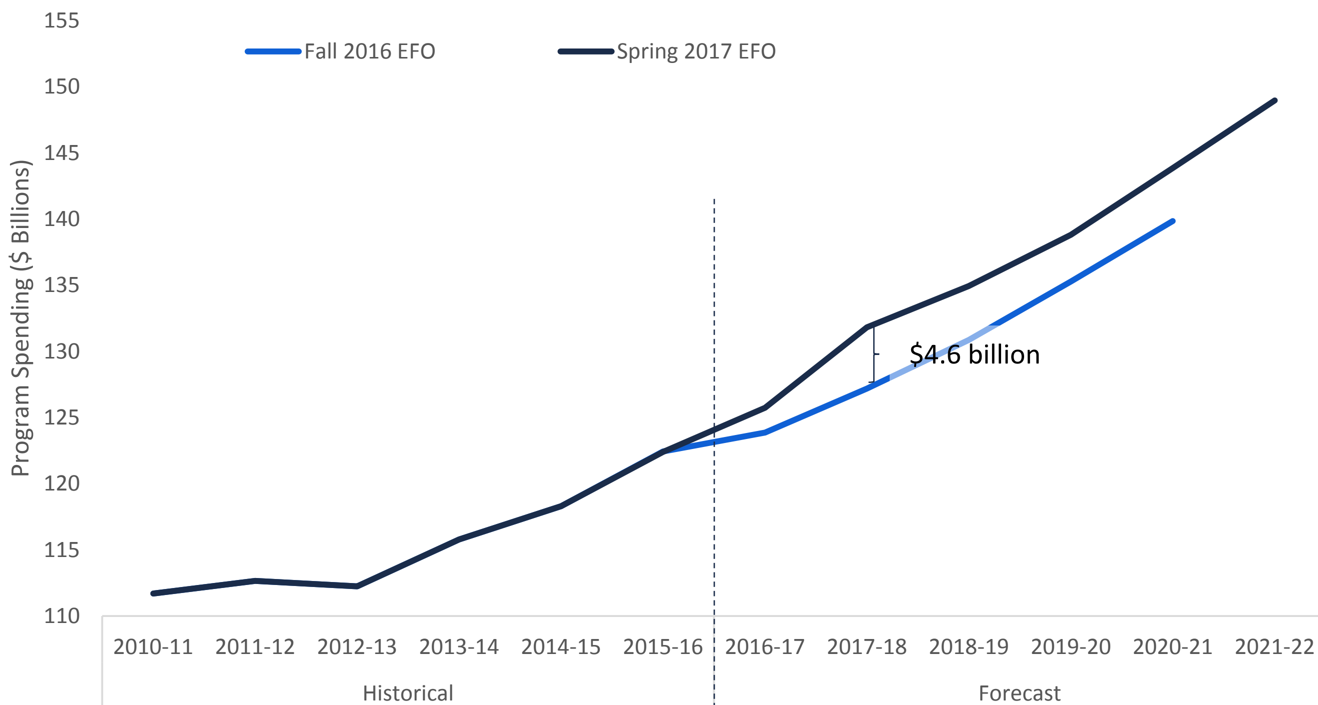
Expense Outlook

Program Expense to Increase Significantly over the Outlook

The FAO projects program spending growth of 3.3 per cent per year over the 2016-17 to 2021-22 period.

Over the 2016-17 to 2019-20 period, the FAO adopts the government's 2017 Budget projections for program spending[5], adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.[6] The expense outlook includes significant new spending across all sectors, including a new children and youth Pharmacare program, higher operating funding for hospitals, 24,000 new child care spaces[7], and the government's new 'Fair Hydro Plan'. As a result, spending is now forecast to be significantly higher by 2017-18 than assumed in the FAO's fall outlook.

Program Expense Higher than Projected in the Fall



Note: Program spending based on AG recommended presentation.
Source: Ontario Public Accounts and FAO

With these new expenses, program spending is expected to grow 3.3 per cent per year on average over the next five years. This growth rate is in-line with underlying growth in cost - and demographic-related pressures of 3.5 per cent on average.

Beyond 2019-20, the FAO projects program spending to increase by 3.6 per cent annually, consistent with underlying factors including population growth, aging, and price inflation.

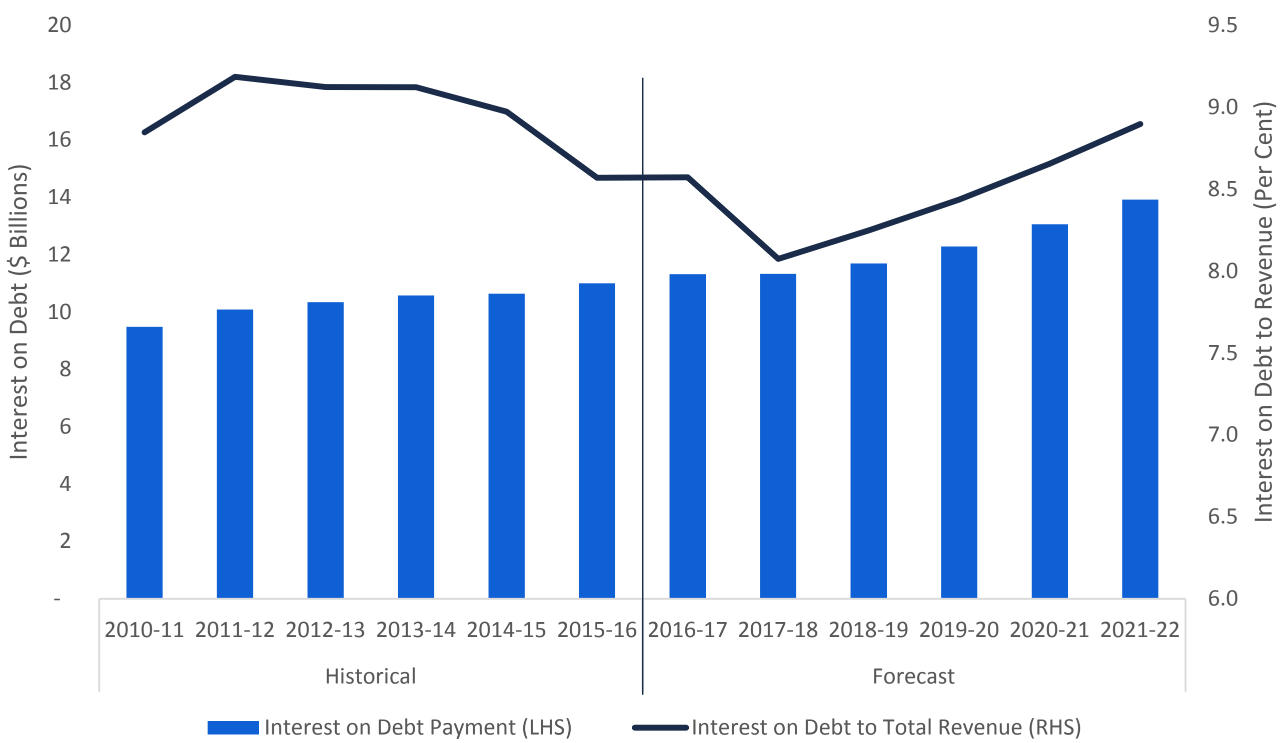
[5] Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate.
[6] The adjustment reflects the inclusion of a valuation allowance to offset the value of net pension assets in jointly sponsored pension plans. This adjustment increases 'other program' expense by $2.2 billion in 2016-17, rising to $2.9 billion by 2020-21.
[7] Ministry of Finance officials indicated that the 24,000 in new child care spaces announced in the 2017 Budget is part of the government's September 2017 Throne Speech commitment to create 100,000 spaces. The remaining funding has yet to be included in the fiscal plan.

Interest on Debt

The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. Interest on debt has become the Province's third largest spending category and will significantly outpace the growth in program expense over the outlook.

As a share of revenues, IOD is projected to increase from 8.1 per cent in 2017-18 to 8.9 per cent by 2021-22, as the rise in interest payments outpaces growth in revenues. Over the past five years, IOD as a share of revenues declined steadily, benefitting from declining interest rates. With interest rates projected to increase significantly over the next five years, the ratio is expected to rise sharply.

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO

Ontario Debt Outlook

Ontario Net Debt-to-GDP To Remain Elevated

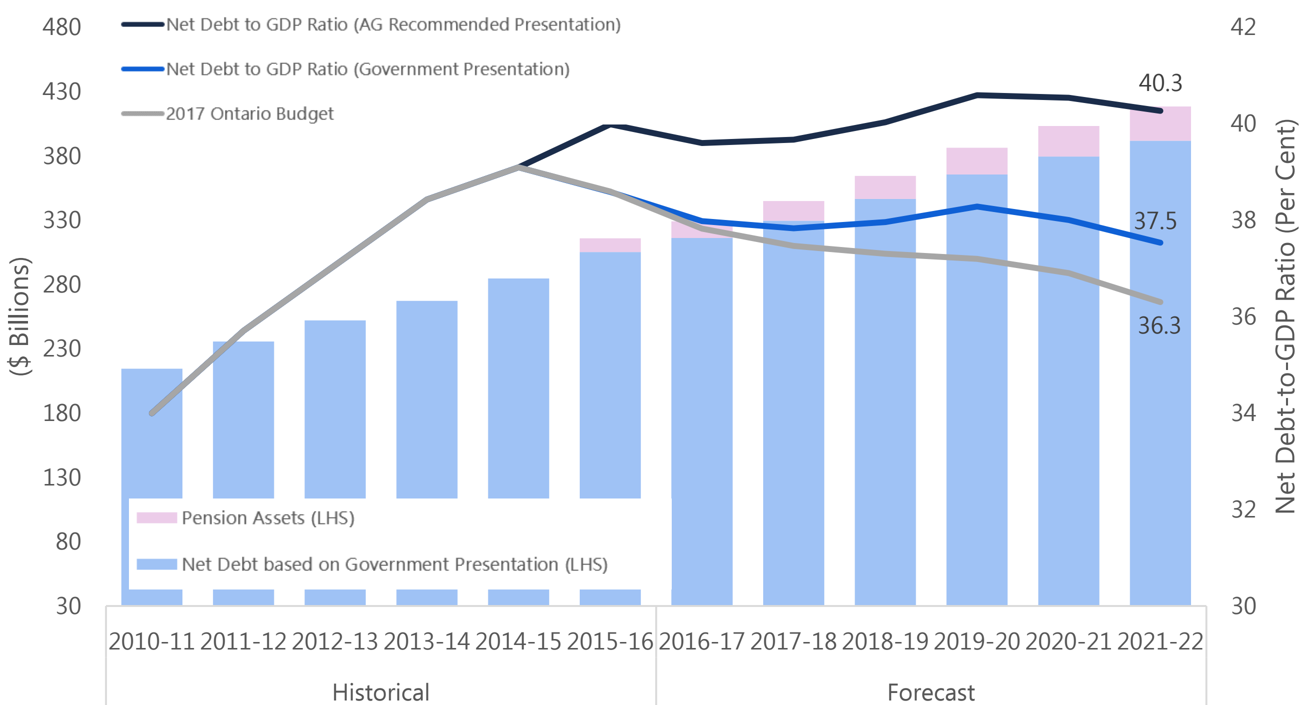
Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, finance on-going deficits (as projected by the FAO) and refinance maturing debt issues, provincial borrowing is expected to average $37 billion per year over the next five years.

As a result, the FAO projects Ontario's net debt to increase by $87 billion over the next five years to more than $392 billion by 2021-22 based on the AG's recommended accounting presentation. By comparison, using the accounting treatment adopted by the government in the 2017 Budget, the FAO projects Ontario's net debt will rise by $71 billion to $365 billion by 2021-22.

Based on the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher over the outlook, rising to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting treatment adopted by the government in the 2017 Budget, net debt-to-GDP is projected to fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22.

In the 2017 Budget, the Province set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to achieving 27 per cent by 2029-30. The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24.

Ontario's Net Debt to GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO

Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in the FAO housing commentary[8], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In addition, the broader economic impacts would impact personal and corporate income tax revenues.

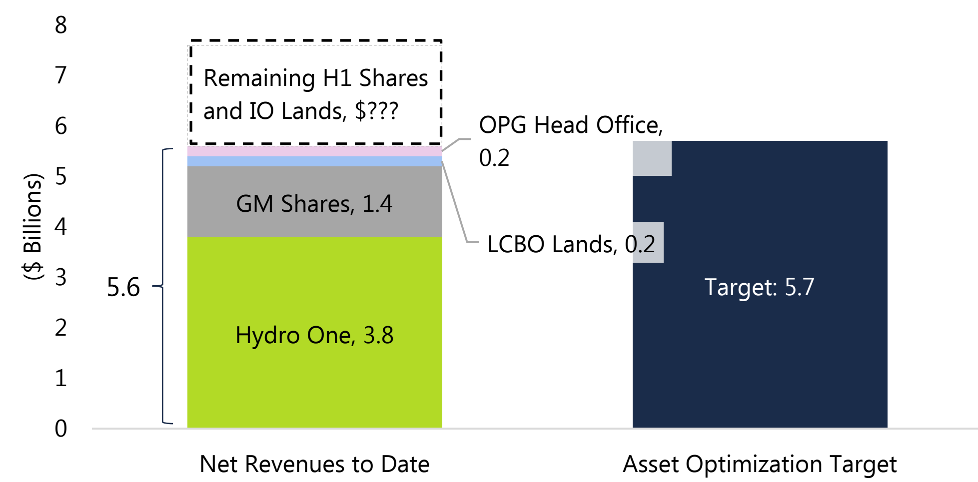
- In the 2017 Budget, the government has significantly reduced the prudence built into its program spending projection compared to the previous budget, leaving less fiscal flexibility for the government to respond to unexpected events.[9] In addition, interest on debt payments as a share of both program spending and revenue are expected to increase significantly, exposing the government to increased fiscal risk should interest rates rise faster than expected.

On the other hand, the government has increased spending growth to a rate in line with underlying spending pressures, which diminishes the expense risk identified in earlier FAO reports.

Additionally, the government has a broad range of policy options that could improve its fiscal position, including the sale of additional public assets beyond announced targets. To date, the government has generated $5.6 billion in revenues from asset sales, close to its target of $5.7 billion over 10 years.

Given that the government has indicated that it still intends to sell an additional 30 per cent of Hydro One, as well as Infrastructure Ontario real estate holdings, it may significantly overachieve its asset sales target.

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets

[8] Financial Accountability Officer of Ontario, The Impact of a Housing Market Correction on Ontario's Fiscal Position, 2017

[9] In the 2017 Budget, contingency funds total $0.6 billion for the coming fiscal year, half the size built into the 2016 Budget fiscal plan. Similarly, the government's target for year-end savings has increased to $1.2 billion for the coming year, compared to $0.8 billion in Budget 2016.

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

Ontario's 2015-16 Public Accounts noted a disagreement between the Office of the Auditor General and the Province on the appropriate accounting treatment for net pension assets of jointly sponsored pension plans. Specifically, the Province is a joint sponsor of two pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP).

The government's position is that these pension assets have been appropriately and consistently reflected on the Province's financial statements since 2001. The Office of the Auditor General, based on a review of these pension assets, determined that a change in the accounting treatment was required. The Auditor General concluded that under current Canadian public sector accounting standards, the government could not unilaterally recognize a pension asset on its financial statements without evidence - in the form of a written agreement - permitting it to realize the asset through reduced contributions.[10]

In response, the Province appointed its own advisory panel to review and provide a recommended interpretation of public sector accounting standards with respect to the assets of jointly sponsored pension plans. The panel's report[11], released in February 2017, concluded that the Province's share of net assets in jointly sponsored pension plans could be fully recognized in the Province's financial statements — contrary to the opinion of the Office of the Auditor General.

In the 2017 Budget, the government adopted the advisory panel's interpretation of public sector accounting standards and recognized the net pension assets of the jointly sponsored pension plans. The 2017 Budget also indicated that the Province's 2016–17 Public Accounts will report the net pension assets for the two jointly sponsored pension plans.

The Central Issue

The government and the Auditor General have put forward different interpretations of the application of public sector accounting standards for jointly sponsored pension plans.[12]

The different interpretations centre on the question of the control of assets in jointly sponsored pension plans. In particular, the issue is focused on whether there needs to be an explicit written agreement between the co-sponsors (the government and the unions representing the employees) on how the sponsors plan to use the pension assets, for example by lowering contributions or increasing benefits to pensioners.

As indicated by the Auditor General, the issue can be resolved if the government presents an agreement with the Ontario Teacher's Federation (OTF) allowing the government to access the OTPP pension assets through reduced contributions.[13] The extent and duration of the reduced contributions would determine the size of the pension asset that the government could recognize in its financial statements

The government, based on the advice of the advisory panel, maintains that the existing agreements governing the pension plans already recognize the sponsors' rights to access assets in the plans and also provide the mechanism to potentially realize a benefit through lower future contribution rates.

[10] The government's 2016 Budget reported a negative expense for the OTPP which led, in part, to the Auditor General conducting an in-depth review of the related pension assets.

[11] https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html

[12] In 2015, PSAB created an Employment Benefits Task Force to review the existing accounting standard for post-employment benefits. The work of this task force will include reviewing the appropriate accounting treatment for shared-risk and multi-employer pension plans. However, the work of this task force is not expected to be completed in the near future.

[13] Of the government's two jointly sponsored pension plans, only the OTPP is currently in a net asset position.

In the absence of an agreement, and given the government's decision in the 2017 Budget to accept the advisory panel's recommended approach to accounting for jointly sponsored pension plan assets, the Auditor General would be expected to provide a qualified opinion[14] on Ontario's 2016-17 Public Accounts.

Roles and Responsibilities of the Province and the Auditor General

The Province (through the Treasury Board Secretariat) is responsible for the preparation of Ontario's Public Accounts in accordance with legislation, and based on the standards set out by the Public Sector Accounting Board (PSAB).[15] The PSAB accounting standards serve the public interest by providing an independent, high-quality accounting framework for public sector entities.

The Auditor General reviews the Province's annual Public Accounts and provides an audit opinion to the Legislature on whether the Consolidated Financial Statements for the Province of Ontario present fairly, in all material respects, the Province's financial position, in accordance with the PSAB accounting standards.

The FAO's Presentation of Ontario's Fiscal Outlook

The Financial Accountability Officer supports the Legislative Assembly by providing independent economic and financial analysis intended to improve the transparency of the government's fiscal plan. The Officer also looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

The FAO has presented two fiscal projections, including and excluding the impact of the net pension assets of jointly sponsored pension plans to help members of the Legislative Assembly better understand the implications of these different interpretations of accounting standards on the Province's fiscal position.

- The projection based on the Auditor General's recommended accounting treatment assumes a valuation allowance that offsets the net pension assets.
- The projection based on the government's fiscal presentation in the 2017 Budget recognizes the net pension assets over the budget outlook.
    - In the absence of an agreement between the co-sponsors, this presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's future Public Accounts.

Based on the Auditor General's recommended accounting treatment for the net assets of jointly sponsored pension plans, the FAO is projecting budget deficits of $2.9 billion in 2017-18, rising to $6.5 billion by 2021-22. Alternatively, based on the pension accounting treatment presented by the Province in the 2017 Budget, the FAO's projection for the budget deficit decreases to $0.5 billion in 2017-18 and $3.6 billion in 2021-22.

[14] An auditor may provide a qualified opinion when financial statements do not conform in a material way to the applicable accounting standards.
[15] https://www.ontario.ca/page/public-accounts-101-guide#section-6]

2. Appendix

Developments since the FAO's Fall 2016 Economic and Fiscal Outlook

The FAO's current projection of the Ontario budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- Stronger than expected economic performance is expected to boost taxation revenues over the forecast, partially offset by lower Equalization revenue.
- Based on new government spending plans, program expense has increased significantly.

Developments since 2016 Fall EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	-5.2	-2.6	-2.8	-3.3	-3.7
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Children and Youth Pharmacare, and Fair Hydro Plan[3]	0.5	1.3	1.3	1.3	1.3
Revised Pension Asset[4]	0.7	0.8	1.1	1.4	1.4
Other Expense Increases	0.7	2.5	1.7	0.9	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	0.2	-0.3	-2.1	-2.3	-2.3
FAO's 2017 Spring Budget Balance Forecast	-5.0	-2.9	-4.9	-5.5	-6.0

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the 2016 Fall EFO, the FAO included $1 billion in expenses from the HST rebate on electricity bills beginning 2017-18, which is now part of the Fair Hydro Plan. As a result, the FAO estimates that the incremental impact of the Fair Hydro Plan is $0.8 billion, compared to the Fall.
4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.

Source: FAO

Forecast Tables

Table 1a: FAO Outlook for Ontario Nominal GDP and Key Revenue Drivers

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Nominal GDP								
Spring 2017 EFO	4.9	4.6	4.1	4.2	4.0	4.0	3.9	4.1
2017 Budget	4.9	4.6	4.3	4.1	4.2	3.9	-	4.1
Current FAO Consensus **	4.9	4.6	3.9	4.3	4.1	3.8	4.0	4.0
Labour Income								
Spring 2017 EFO	4.2	4.2	4.0	4.1	4.1	3.9	3.8	4.0
2017 Budget ***	-	4.4	4.1	4.5	4.6	4.2	-	4.3
Corporate Profits								
Spring 2017 EFO	9.1	9.2	6.0	6.3	5.5	4.7	4.5	5.6
2017 Budget	-	9.2	6.8	7.1	5.4	4.0	-	5.8
Household Spending								
Spring 2017 EFO	3.9	4.2	4.2	3.7	3.4	3.5	3.6	3.8
2017 Budget	-	4.2	4.3	4.2	4.2			4.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020 and 2017 to 2019 for Household Spending.

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Budget 2017 Reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 1b: FAO Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO - 2017 Spring Outlook	2.5	2.7	2.4	2.1	2.0	2.0	1.9	2.1
Budget 2017	2.5	2.7	2.3	2.1	2.0	1.7	-	2.0
Current FAO Consensus **		-	2.1	2.3	2.1	1.9	1.9	2.1
Real GDP Components								
Household Spending ***	2.7	2.7	2.3	1.9	1.9	1.8	1.8	2.0
Residential Investment	7.2	7.9	3.5	-1.3	-2.0	1.9	2.4	0.5
Business Investment ****	8.2	-4.0	0.2	5.6	5.7	4.9	3.9	4.1
Government (Consumption and Investment)	1.9	1.6	1.7	1.3	1.2	1.1	1.0	1.3
Exports	2.8	3.0	2.4	2.7	2.5	2.3	2.2	2.5
Imports	3.7	1.4	2.2	2.2	2.3	2.2	2.1	2.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Household Spending is Household and Non-Profit Consumption Expenditure.

**** Business Investment is Non-residential Investment and Machinery & Equipment.

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO - Spring Outlook	0.7	1.1	1.3	1.1	1.0	0.9	0.9
2017 Budget	0.7	1.1	1.3	1.2	1.1	0.9	-
Unemployment Rate (Per Cent)							
FAO - Spring Outlook	6.8	6.5	6.4	6.3	6.3	6.3	6.2
2017 Budget	6.8	6.5	6.4	6.3	6.2	6.2	-
Labour Force (Per Cent Growth)							
FAO - Spring Outlook	0.1	0.9	1.1	1.0	1.0	0.9	0.9
2017 Budget	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Spring Outlook	0.8	1.3	1.3	1.1	1.1	1.1	1.1
2017 Budget	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Spring Outlook	1.2	1.8	2.1	2.1	2.0	2.0	2.0
2017 Budget	1.2	1.8	2.0	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO - Spring Outlook	0.9	1.4	2.2	2.3	2.0	1.9	1.9
2017 Budget	0.9	1.4	2.1	2.0	1.9	1.7	-
U.S. Real GDP (Per Cent Growth)							
FAO - Spring Outlook	2.6	1.6	2.3	2.3	2.2	2.1	2.1
2017 Budget	2.6	1.6	2.3	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO - Spring Outlook	78.2	75.4	75.6	78.4	78.8	79.9	81.3
2017 Budget	78.2	75.4	74.5	75.5	78.5	80.0	-
WTI Crude Oil (US$)							
FAO - Spring Outlook	49	43	54	55	56	61	68
2017 Budget	49	43	54	59	62	64	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Spring Outlook	0.5	0.5	0.6	1.4	1.9	2.3	2.6
2017 Budget	0.5	0.5	0.5	0.8	1.5	1.9	-
10-year Government Bond Rate (Per Cent)							
FAO - Spring Outlook	1.5	1.3	1.8	2.5	2.9	3.6	3.9
2017 Budget	1.5	1.3	1.9	2.4	3.0	3.2	-

a = Actual   f = Forecast

Source: Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	32.4	34.5	36.7	38.6	40.5	42.5
Sales Tax	23.5	24.7	25.8	26.5	27.3	28.2	29.2
Corporations Tax	11.4	12.7	13.3	14.0	14.6	15.1	15.6
All Other Taxes	25.8	24.0	25.1	25.9	26.9	27.6	28.5
Total Taxation Revenue	91.8	93.9	98.7	103.1	107.3	111.5	115.8
Transfers from Government of Canada	22.9	24.3	25.7	24.6	24.1	24.8	25.6
Income from Government Business Enterprise	4.9	5.3	4.9	5.7	6.0	6.3	6.5
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	8.3	8.5
Total Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4
Expense							
Health Sector	51.0	52.2	53.8	56.3	58.1	60.6	63.3
Education Sector	25.0	25.7	26.5	27.4	28.0	29.0	29.8
Postsecondary and Training Sector	7.7	7.8	8.4	8.3	8.4	8.5	8.6
Children's and Social Services Sector	15.6	16.2	16.9	17.2	17.4	18.0	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	4.9	5.0
Other Programs*	17.1	19.2	21.5	21.0	22.1	22.9	23.7
Total Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9
Budget Balance* (AG Presentation)	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Adjustment for Net Pension Assets	-1.5	-2.2	-2.3	-2.6	-2.9	-2.9	-2.9
Budget Balance (Government Presentation)	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Budget Balance (2017 Budget)	-3.5	-1.5	0.6	0.6	0.9		

a = Actual f = Forecast

* Based on AG recommended presentation with adjustment for net pension assets.

Note: Budget balance is presented without reserve.

Source: Statistics Canada, Public Accounts of Ontario, Annual Report of Ontario and FAO

Table 4a: FAO Debt Outlook (Auditor General Recommended Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Accumulated Deficit	202.7	207.7	210.6	215.5	221.0	227.0	233.5
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7
Change in Net Debt		10.9	13.5	16.8	19.0	14.0	12.3
Net Debt to GDP (Per Cent)	40.0	39.6	39.7	40.0	40.6	40.5	40.3

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

Table 4b: FAO Debt Outlook (Government Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Accumulated Deficit	192.0	194.8	195.3	197.6	200.2	203.3	206.9
Net Debt	294.5	303.1	314.3	328.5	344.6	355.7	365.1
Change in Net Debt		8.7	11.2	14.2	16.1	11.1	9.4
Net Debt to GDP (Per Cent)	38.6	38.0	37.8	38.0	38.3	38.0	37.5
Net Debt to GDP from 2017 Budget (Per Cent)	38.6	37.8	37.5	37.3	37.2	36.9	36.3

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

From:	Anna Strathy
To:	Ken Kandeepan
Subject:	FW: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed
Date:	Monday, January 15, 2018 11:13:35 AM
Attachments:	Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d.docx

Hi Ken,

Office of the Budget is releasing the attached note in response to an FOI request. The request was for final documents related to the FAO's Fall Economic and Fiscal Outlook. The attached summary note was provided to the DMO and MO. We've been asked to review to determine whether anything needs to be redacted (i.e., advice to Cabinet).

I've reviewed and only see two areas for the OFA to consider:

Borrowing and Net Debt (p. 3-4)

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.
    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

This information is already public – I see no need for redaction.

Chart on page 5 compares the 2017 FES fiscal table with the FAO's outlook

While we have not published the delta, all of the inputs to the table are public – I see no need for redaction.

Could you please have a quick review and let me know if you agree with my assessment?

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Friday, January 12, 2018 2:41 PM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: FW: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

Hi Ghufran, Sarah, and Anna,

We received an FOI request for final documents related to the FAO's Fall Economic and Fiscal Outlook (EFO). OB is planning on providing the attached final summary note to the FOI office. We're just in the process of verifying whether any of our components of the summary note need to be redacted.

Can your areas please review the note and flag whether any of the information should be redacted in line with FIPPA exemptions **by noon on Tuesday, January 16**? Exemptions should be limited to information that is not publically available (e.g. internal analysis/advice for government officials).

Please let me know if you have any questions.

Thanks,
Ryan

From: Bouganim, Dalia (MOF)
Sent: January-05-18 12:21 PM
To: Forrest, Jamie (CAB); Ghiassi, Ali (MOF); Fiore, Jessica (MOF); Park, Ria (MOF); Wong, Mimi (MOF); Zisser, Helmut (MOF); Moore, Brynne (MOF); Clarke-Darshanand, Jamille (MOF); Spadoni, Peter (MOF); Kim, Minzi (MOF); Koukoulas, Sophia (MOF)
Cc: Hwang, Wendy (CAB); Jeanes, Bridget (MOF); Joynt, Lorraine (MOF); Murphy, Jessica (MOF); Williams, Nadia (MOF); Sharda, Ritvik (MOF); Tarin, Ghufran (MOF); Birks, Ryan (MOF)
Subject: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

UPDATE: Request narrowed on January 4, 2018 to final documents, excluding emails, related to the substance of the "Economic and Fiscal Outlook, Fall 2017 Update" released by the province's Financial Accountability Office on December 11, 2017 for the time period of December 4, 2017 to December 25, 2017. This request has also been actioned to the Office of the Budget.

Sincerely,

Dalia S. Bouganim
416-325-8370

From: Bouganim, Dalia (MOF)
Sent: January-02-18 1:49 PM
To: Forrest, Jamie (CAB); Ghiassi, Ali (MOF); Fiore, Jessica (MOF); Park, Ria (MOF); Wong, Mimi (MOF); Zisser, Helmut (MOF); Moore, Brynne (MOF); Clarke-Darshanand, Jamille (MOF); Spadoni, Peter (MOF); Kim, Minzi (MOF); Koukoulas, Sophia (MOF)
Cc: Hwang, Wendy (CAB); Jeanes, Bridget (MOF); Joynt, Lorraine (MOF); Murphy, Jessica (MOF); Williams, Nadia (MOF); Sharda, Ritvik (MOF); Tarin, Ghufran (MOF)
Subject: NEW CONTENTIOUS FOI REQUEST - Request A-17-189 (Economic and Fiscal Outlook FAO Report)

UPDATE: New request, clarified on December 29, 2017. Actioned to the Office

of Economic Policy, Deputy Minister's Office, Minister's Office and Communications Services Branch.

REQUEST: Copies of all documents, including e-mails, briefing notes, media lines, text or Instant messages, etc., regarding the Economic and Fiscal Outlook, Fall 2017 Update released by the province's Financial Accountability Office on December 11, 2017. Time Period: December 4, 2017 to December 25, 2017.

SOURCE: Media

DUE DATE: January 28, 2018

Please contact me if you have questions about the request.

Sincerely,

Dalia S. Bouganim
Assistant FOI Coordinator
Freedom of Information and Privacy Office
Ministry of Finance
95 Grosvenor Street
Toronto, Ontario M7A 1Z1
Tel: 416-325-8370

FAO's 2017 Fall Economic and Fiscal Outlook

ISSUE

On Monday Dec 11th, 2017 the Financial Accountability Office will release its 'Fall Economic and Fiscal Outlook' report. This note is a summary.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his fall economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive.
- As outlined in the 2017 Ontario Economic Outlook and Fiscal Review, the government is projecting a balanced budget for 2017–18 and continued balance in 2018–19 and 2019–20.
- The FAO's deficit projections differ from the government's, but as with any future oriented forecast there is uncertainty.
- What we do know for certain is that this government has a strong track record of beating its fiscal targets. In fact, the Public Accounts of Ontario reported that the 2016–17 deficit was $1.0 billion, beating our annual deficit target again, for the eighth year in a row.
- The 2017 Ontario Economic Outlook and Fiscal Review builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Since 2014, Ontario's real GDP growth has strengthened, positioning Ontario as a growth leader, not only in Canada, but among G7 countries. In fact, over the 2014-17 period, Ontario's real GDP growth is on pace to exceed that of all G7 countries.
- Private-sector economists are projecting continued growth for Ontario over the forecast horizon; the FAO's real GDP projections are aligned with the 2017 Fall Economic Statement over the 2017 to 2020 period.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education, support for seniors and small businesses and other public services that matter most to Ontario families. A balanced budget also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY POINTS

Economic Outlook

- The FAO has raised its forecast for Ontario economic growth in 2017 from its spring outlook report. However, despite this upward revision, the FAO forecast is at the bottom of the current range of the MOF survey of private sector forecasts for both real and nominal GDP growth in 2017.
- Beyond 2017, the FAO forecast anticipates growth to moderate as the housing market and consumer spending cool alongside gradually rising interest rates, in line with the FES forecast.
- Over the 2017 to 2020 period, the FAO's forecast for average annual real GDP growth of 2.2 per cent is the same as the 2017 FES outlook.
- However, for nominal GDP growth, the FAO's average annual forecast of 4.2 per cent over the 2017 to 2020 period is slower than the FES projection of 4.4 per cent growth. This difference is explained by a much lower FAO nominal GDP forecast in 2017 compared to the FES (4.7 per cent vs 5.3 per cent).
- The FAO forecast takes into account its estimate of the impact of the new minimum wage legislation, which is expected to boost wage growth over the forecast, but temper employment gains. Even with these employment impacts, the FAO predicts a modest decline in the unemployment rate.

Fiscal Outlook

- The FAO is projecting a budget deficit of $4.0 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes the deficit grows steadily to $9.8 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.2 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES have reduced transparency and clarity of Ontario's fiscal position and Ontario will continue to receive qualified opinions from the AG on its Pubic Accounts.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Government Presentation	-3.5	-1.0	0.2	-1.9	-1.9	-2.6	-3.7
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- The FAO is projecting average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), a one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.**
    - Both the Fair Hydro Plan and net pension asset adjustment impact the expense side with a combined impact of approximately $4.2 billion in 2017-18.
- The FAO notes that in 2018-19 and 2019-20, increases in program spending will be restrained to an average of 2.4 percent, below the growth in underlying spending pressures. Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.2 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.

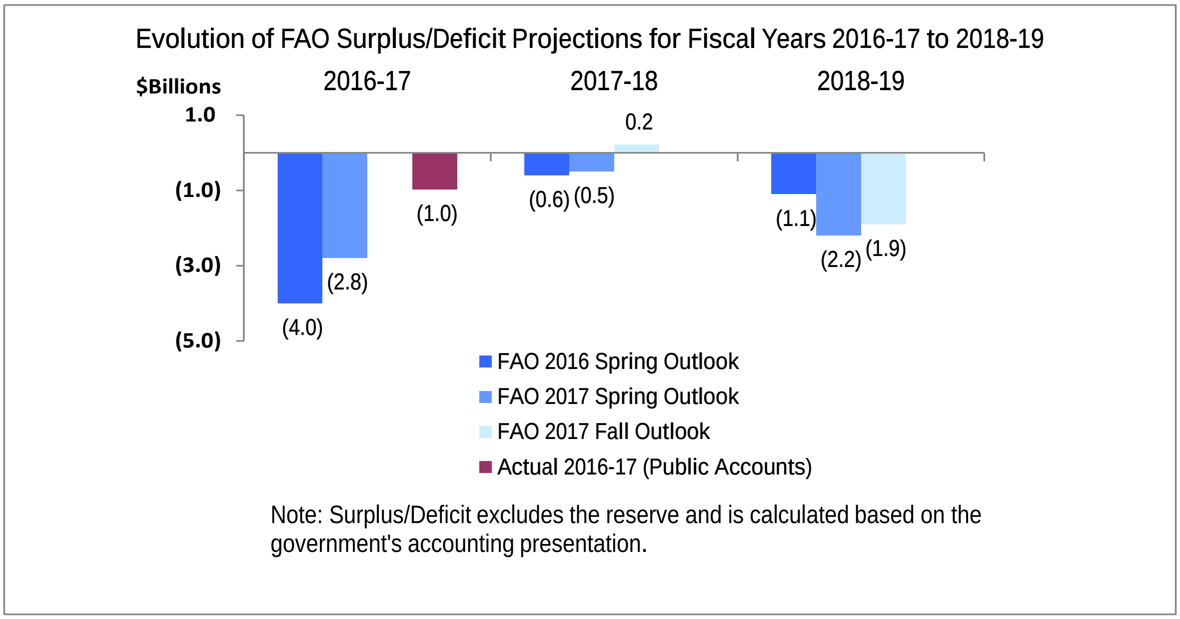
- The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Fall Economic Statement										
Taxation Revenue	91.8	94.3	99.9	105.1	110.0			5.2%		
Transfers from Gov't of Canada	23.1	24.5	26.2	26.0	25.4			1.2%		
Income from GBEs	4.9	5.6	5.1	5.9	6.2			3.7%		
Other Non-Tax Revenue	16.3	16.3	19.0	16.5	16.6			0.7%		
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit)	(3.5)	(1.0)	0.5	0.5	0.8					
Net Debt	295.4	301.6	311.7	323.0	335.6			3.6%		
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Taxation Revenue	-	-	-1.2	-2.4	-2.9					
Transfers from Gov't of Canada	-	-	0.0	-0.5	-0.4					
Income from GBEs	-	-	0.0	0.0	0.0					
Other Non-Tax Revenue	-	-	0.4	0.0	0.0					
Total Revenue	-	-	(0.7)	(2.9)	(3.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9					
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*3.8*	*4.7*	*5.2*					
Surplus/(Deficit) AG Presentation	*(1.5)*	*(1.4)*	*(4.5)*	*(7.6)*	*(8.6)*					
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	*(0.0)*	*(0.0)*	*(0.3)*	*(2.4)*	*(2.7)*					
Net Debt	*11.0*	*12.5*	*17.5*	*24.7*	*32.4*					
2017 Fall FAO Fiscal Outlook										
Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8	4.3%	4.0%	4.2%
Transfers from Gov't of Canada	23.1	24.5	26.2	25.5	25.0	25.8	26.6	0.7%	3.2%	1.7%
Income from GBEs	4.9	5.6	5.1	5.9	6.2	6.5	6.7	3.5%	4.0%	3.7%
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0	0.6%	4.1%	2.0%
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0	3.2%	3.9%	3.5%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.2	156.9	3.5%	4.3%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9	2.9	2.9			
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9	3.4	3.2			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8	4.3%	4.3%	4.3%
Surplus/(Deficit) AG Presentation	(5.0)	(2.4)	(4.0)	(7.1)	(7.8)	(9.0)	(9.8)			
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	(3.5)	(1.0)	0.2	(1.9)	(1.9)	(2.6)	(3.7)			
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4	5.4%	4.8%	5.2%

Note: All surplus/deficits exlcude the reserve. Numbers may not add due to rounding.

FAO Projections Compared to Actuals/Current Outlook



Comparison of FAO Economic Projection to Actual/Current

	2016 % change			2017 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Nominal GDP	3.4	4.3	*-0.9*	4.1	4.7	*-0.6*
Real GDP	2.4	2.6	*-0.2*	2.4	2.8	*-0.4*
Corporate Profits	0.3	7.3	*-7.0*	6.0	11.7	*-5.7*
Labour Income	4.0	3.3	*0.7*	4.0	4.0	*0.0*
Nominal Household Spending	4.4	4.2	*0.2*	4.2	4.7	*-0.5*

Comparison of FAO Revenue Projection to Actual/Current

	2016-17 % change			2017-18 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Total Revenues	2.6	3.4	*-0.8*	6.3	6.5	*-0.2*
Taxation Revenues	0.6	2.8	*-2.2*	5.1	4.7	*0.4*
Government of Canada Transfers	7.4	6.1	*1.3*	5.8	6.5	*-0.8*
Income from GBEs	14.0	13.4	*0.6*	-7.5	-8.9	*1.4*
Other Non-Tax Revenues	5.8	0.0	*5.8*	29.4	36.9	*-7.5*

Economic Assumptions: FAO vs FES

Real GDP	**2017**	**2018**	**2019**	**2020**	**2017-20 average**
FAO - Fall 2017	2.8	2.1	2.0	1.9	2.2
FES 2017	2.8	2.1	2.0	2.0	2.2
Nominal GDP					
FAO - Fall 2017	4.7	4.1	4.1	4.1	4.2
FES 2017	5.3	4.1	4.1	4.2	4.4
Labour income					
FAO - Fall 2017	4.0	4.5	4.3	4.1	4.2
FES 2017	4.3	4.7	4.8	4.4	4.6
Corporate profits					
FAO - Fall 2017	11.7	2.2	3.7	4.4	5.5
FES 2017	16.1	2.9	2.8	3.7	6.4
Household consumption*					
FAO - Fall 2017	4.7	4.2	4.1	3.9	4.2
FES 2017	5.1	4.3	4.3	4.3	4.5

* Real household consumption plus CPI

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Anna Strathy
Subject:	FW: Ontario 2016/17 Public Accounts Beats Budget Projections
Date:	Sunday, September 10, 2017 12:30:01 PM
Attachments:	Ontario 2016-17 Public Accounts Beats Budget Projections (September 7, 2017).pdf

Hi Gadi

I am sure you would have seen this, if not... In any event a reasonable and fair assessment of the pension issue by Maria

Thanks

Ken k

From: CIBC CM Macro Strategy [mailto:Mailbox.CIBCCMMacroStrategy@cibc.com]
Sent: Thursday, September 07, 2017 5:57 PM
Subject: Ontario 2016/17 Public Accounts Beats Budget Projections

CIBC Capital Markets
Macro Strategy

Ontario 2016/17 Public Accounts Beats Budget Projections
September 7, 2017

Credit Implications: Moderately Positive

Credit Ratings: DBRS AA (low), Moody's Aa2, S&P A+, Fitch AA-, All Outlooks Stable

Today Ontario released its 2016/17 Public Accounts showing a deficit of -$991mln, an improvement of $3.3bln when compared to the 2016 Budget and $0.5bln relative to the 2017 Budget.

The year-end results received a qualified opinion from the Auditor General reflecting a difference in opinion regarding the interpretation of accounting for pensions under Canadian Public Sector Accounting Standards. A reconciliation of the statements show that the deficit would have been -$2.435bln if the Province would have applied the Auditor General's interpretation of the standards. As well, Net Debt would have been $12.4bln higher. The Province's professional staff have a different interpretation and, earlier this year, engaged an expert panel of accountants to review the matter. In the end, the panel sided with the Province. For more information on the pension issue, please see our research note "Expert advisory panel agrees with Ontario in pension accounting issue" Click Here[cibcmacro.com]

In addition to the change in accounting for net pension assets of jointly sponsored pension plans, there were other "Accounting Changes to Ontario's Financial Statements" which bring reporting more in line with "PSAB standards and the reporting practices of other senior Canadian governments." For more information on this, please Click Here[news.ontario.ca].

$million	2017	2016
Annual deficit as presented	(991)	(3,515)
Effect of valuation allowance on:	(1,364)	(1,480)
Education expense	(80)	(351)
General Government and other expense	-	-

Annual deficit in accordance with Canadian public sector accounting standards	**(2,435)**	**(5,346)**
Net debt as presented	(301,648)	(295,372)
Effect of valuation allowance	(12,429)	(10,985)
Net debt in accordance with Canadian public sector accounting standards	**(314,077)**	**(306,357)**

Source: Ontario 2016/17 Public Accounts

Although Ontario's improved results reflect in part a change in basis of accounting for pensions, we view these results as constructive towards the end goal of returning to balance in Fiscal 2017/18. The expected return to balance puts the Province on track to eventually getting a positive review from Standard & Poor's who downgraded it in 2015. However, we believe an outlook change to positive is more likely to occur after the election on June 7, 2018. The rating agency will be looking for more comfort that the elected government will remain steadfast in its goal of reducing debt to pre-recession levels.

In the 2017 Budget, the Province set an interim target to reduce debt to 35% by 2023-24. Its long-term target is to reduce this figure to the pre-recession level of 27%, which is currently shown being met by 2029-30.

S&P Ratings Scorecard: Province of Ontario	
Date	Jun-15-2017
Rating	A+
Outlook	Stable
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Average
Budgetary Performance	Weak
Liquidity	Adequate
Debt Burden	Very high
Contingent Liabilities	Low

Source: S&P

While Ontario appears on track to returning to balance, it has a formidable capital program that will require debt funding. As presented in the 2017 Budget, Ontario's capital program is projected to total $190bln over a 13-year period that started in 2014/15.

Funding for the program will factor in the implications of both the Federal and Provincial climate change plans, Federal funding and infrastructure needs. The latter will need to take into account renewal, replacement and growth. The particulars of all these aforementioned factors continue to evolve.

Earlier this year, the Federal government announced that it will fund 43% of the Province's $4.4bln upgrades to the GO Transit Regional Express Rail. The Province had previously committed to funding 100%.

The Hydro One privatization strategy, which is largely concluded, has been a means to fund part of Ontario's capital program. For more information on the Hydro One privatization, please see our note "Ontario Sells Final Stake in Hydro One" Click Here[cibcmacro.com]

Overall, we consider today's announcement to be moderately positive. The results reflected a combination of stronger revenues from better than projected economic growth and effective cost management.

2016/17 Public Account Highlights:

- Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up from 2.2 per cent projected in the 2016 Budget
- Total revenue of $140.7bln, up $2.2bln from the 2016 Budget projection
- Total spending of $141.7bln, down $0.1bln from the 2016 Budget projection
- Interest on debt of $11.7bln, down $0.7bln from the 2016 Budget projection

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Ontario 2016/17 Public Accounts Beats Budget Projections

September 07, 2017

Credit Implications: Moderately Positive

Credit Ratings: DBRS AA (low), Moody's Aa2, S&P A+, Fitch AA-, All Outlooks Stable

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From:	Anna Strathy
To:	Ken Kandeepan
Subject:	FW: tech briefing
Date:	Thursday, September 07, 2017 12:03:34 PM
Attachments:	Public Accounts Technical Briefing 201617_Final.pptx Pension Panel Slides _2016-17 PA Tech Briefing_Final.pptx

FYI

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, September 07, 2017 10:32 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: FW: tech briefing

FYI

From: MacIntyre, Kyle (TBS)
Sent: September 7, 2017 9:06 AM
To: Kwamena, Boafoa (CAB)
Cc: Bromm, William (CAB); McLean, David (MOF)
Subject: RE: tech briefing

Here's the tech deck and a summary of the former Panel's report (which will be delivered by Uros Karadzic).

Tech deck:

- Pls use: Confederation17
- Helen/Scott open up with context
- Cindy to speak to:
  - o Preparation of the financial statements and key changes to these public accounts (including those we agree with the AG on)
  - o IESO related changes (qualified on)
  - o Pension asset related accounting (qualified on)
- Turn over to Uros to summarise former panel report

Our MO is reviewing, will share any edits. IESO has looked at their slides. Focus is supposed to be largely on the Pensions, hence the prominence in the deck.

Tech briefing:

- In the Nipigon room.
- Starts at 1:00
- Media Avail w two ministers: starts at 1:45, is the current tracking

Media kits are being prepared.

K.

From: Kwamena, Boafoa (CAB)
Sent: September-07-17 8:42 AM
To: MacIntyre, Kyle (TBS)
Cc: Bromm, William (CAB)
Subject: tech briefing

Hi

Are there materials you can share? Thanks

Boafoa Kwamena
Special Advisor
Office of the Secretary of the Cabinet
Cabinet Office
416-325-4400
Boafoa.kwamena2@ontario.ca

2016-17 Public Accounts

Technical Briefing

September 7, 2017

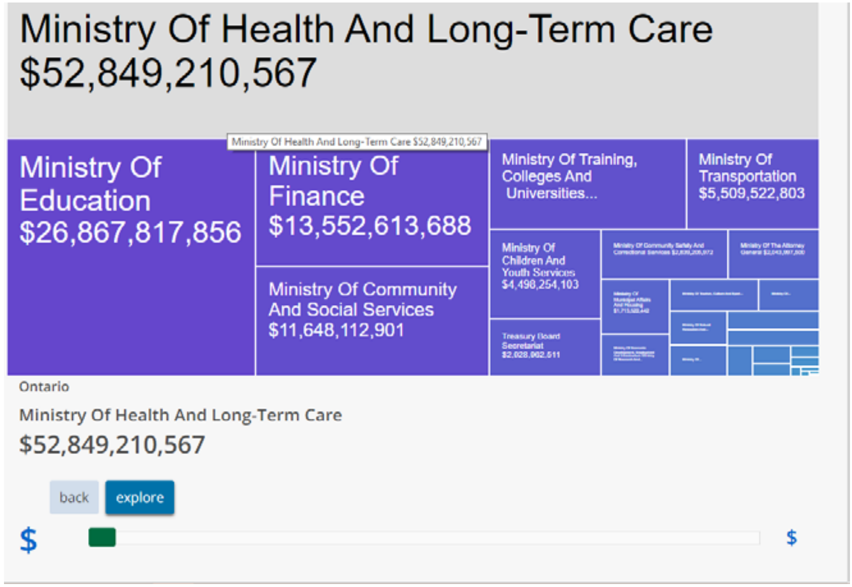
Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
   a) Classification of third-party revenues for hospitals, colleges and school boards
   b) Accounting basis for Ontario Power Generation and Hydro One
   c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
   d) Accounting for net pension assets of jointly sponsored pension plans

Ontario

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.
- This year, Ontario has:
  - Released six new downloadable data sets
  - Created new data visualizations tools
  - Published the web page under the Open Ontario Licence



2016-17 Highlights

- Ontario has beaten its deficit target eight years in a row. The 2016-17 Public Accounts of Ontario show that Ontario's deficit is $1 billion - $3.3 billion lower than projected in the 2016 Ontario Budget.

- In the 2016-17 fiscal year (April to March):
  - revenue was $140.7 billion – $2.2 billion more than expected in the 2016 Budget
  - expenses were $141.7 billion – $0.1 billion less than planned in the 2016 Budget
  - Some of the top spending areas included

$56B Health

$26.6B Education

$12.9B Infrastructure

Ontario

2016-17 Highlights

Other highlights include:

- Ontario's real gross domestic product (GDP) was 2.7%, up from 2.2% in the 2016 Budget. Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.

- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

Visit **Ontario.ca/publicaccounts** for more highlights and digital tools that help make Ontario's finances easier to understand, access and use.

Ontario

Summary 2016-17 Results

2016-17 Actual Results					
$ Billions	**2016-17 Budget[1]**	**2016-17 Actual**	**2015-16 Actual [1 2]**	**Change from Budget**	**% Change**
Revenues	138.5	**140.7**	136.1	2.2	1.6%
Expenses	141.8	**141.7**	139.7	(0.1)	-0.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(4.3)	**(1.0)**	(3.5)	3.3	-76.7%
Net Debt		**(301.6)**	(295.4)		
Accumulated Deficit		**(193.5)**	(192.0)		

[1] 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

[2] 2015-16 Actual has been restated to reverse the impact of regulated accounting for pensions

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.
  - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

Accounting Changes for 2016-17

- The Province adopted several new accounting changes for the 2016-17 Public Accounts to better reflect the financial position and activities of the government during the fiscal year
- These changes included:
  a) Classification of third-party revenues for hospitals, colleges and school boards
  b) Accounting basis for Ontario Power Generation and Hydro One
  c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
  d) Accounting for net pension assets of jointly sponsored pension plans

Ontario

Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only.
- The changes increases total revenues and expenses by approximately $8 billion.
- There is no impact to the Province’s deficit, net debt or accumulated deficit.
- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province’s professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Ontario

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a $17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
  - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
  - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator's accounting for the "market accounts".

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
  - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Ontario

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
  - The report of the Pension Asset Expert Advisory Panel (https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
  - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
  - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP.

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report ("Deloitte Report") on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario's financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario's accounting for the Ontario Teachers' Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers' Federation (OTF). Based on the Province's application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province's application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province's financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province's ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province's accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province's financial statements as at March 31, 2016 or at any other date.

Appendix B: Panel Members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

Summary of Pension Asset Expert Advisory Panel

Technical Briefing

September 7, 2017

Pension Asset Expert Advisory Panel -- Process

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.

- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.

- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.

- Panel considered:
  - guidance in PSAS specifically on Retirement Benefits
  - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Panel's Position on Recognition of Asset

- Net pension asset meets the definition of an economic resource because:
  - accounting surplus exists, and
  - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.

- Unilateral control not necessary for asset recognition:
  - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
  - sponsors jointly control the total net pension asset and must agree on how it will be used
  - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
  - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Panel’s Position on Measurement of Asset

- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions

- Contribution reductions are not the same as surplus withdrawal:
  - legal requirements for surplus withdrawal and contribution reductions are very different
  - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
  - no third-party approvals needed for contribution reductions

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
  - agreements in place already sufficient
  - standard says benefits need only be reasonably expected

- No onerous funding requirements exist for OTPP or OPSEUPP

Overall Conclusions of Panel

Recognition and measurement of the asset

- Net pension asset, without any valuation allowance, should be recognized in the Province’s financial statements.
- Recognizing the asset will provide a faithful representation of the Province’s financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

Appendix: Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG

- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP

- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY

- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

From:	Gadi Mayman
To:	Anna Strathy
Subject:	Fw: CD Howe Notes Apr 25
Date:	Wednesday, April 26, 2017 6:04:11 PM
Attachments:	CD Howe Notes Apr 25.docx

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Wednesday, April 26, 2017 5:27 PM
To: Gadi Mayman; Ken Kandeepan
Subject: FW: CD Howe Notes Apr 25

The Federal and Ontario AGs spoke at a CD Howe lunch yesterday – attached are notes taken from that event.

Cindy

Notes from Presentation at CD Howe (April 25, 2017)
Topic: Release of CD Howe Research Report: ***Numbers You Can Trust, the Fiscal Accountability of Canada's Senior Governments, 2017***

Moderator's note: Session 12:30 – 1:30 is 'off the record'.
Introductory Remarks by Bill Robson – nothing significant to note
Remarks by Mike Ferguson (Federal Auditor General)

- Suggested that qualified audit opinions should result in much lower marks (specific references made to BC which received an A rating, and ON which received a B+)
- Said that anyone not receiving an A or A+ is 'not trying'
- Suggested that CD Howe Institute has to be harder hitting on its ratings system and not just hold the governments to a low 'elementary school' ranking system, but to graduate to a high school rating system
- Said that Federal gov't got an A despite the fact that they still don't align their estimates with the Budget and that the reason given for not adopting is that an aligned (accrual based) Estimates process wouldn't be understood. Mike commented that in NB they were able to implement it fine, and that the Feds should have done it by now.

Remarks by Ontario's AG:

- Reminded that the session was 'off the record'
- Devoted most of her time (majority of the Panel's time) discussing the qualified audit opinion in Ontario and presenting only 'her version of the facts'
- Said that the independence of her staff had been challenged (didn't say by who)
- Said that if a private sector firm had been subject to what they had, it would have likely resigned, but that she can't (made reference to the release of the unaudited f/s and all of the hard work that her team had been subject to).
- Said that only when the unaudited f/s were released did she finally known what the government's position was and so was able to finalize her opinion.
- Noted that on the morning of the release she had met with the Ministers, Chiefs of Staff and both DMs and that they hadn't disclosed their plans to release the unaudited f/s. She was very surprised and taken aback.
- Made reference to the 'experts' that she uses, including National firm partners, and Canadian Standard Setters. She 'knows that she is right' and her accounting treatment is supported by the same accounting by BC and NB, as well as the TTC.
- Said that the assets reported by the Province do not meet the definition of an asset, and that the Panel's reference to IFRS was inappropriate and not relevant.
- Said that an accounting firm was not able to support the pension asset valuation
- Said that ON finally reached the proper accounting treatment but by legislation, and that she qualified on the basis that the historical f/s not being restated.
- She challenged the 'independence' of the panel, observing that her own experts are independent.
- Commented on the province's lack of a debt retirement plan and referenced the important Debt/GDP indicator.

- Slides included a specific reference to the Fair Hydro Plan as well – with reference to the Debt/GDP ratio, said that some are finding ways under existing accounting standards to offset debt with assets to manage the Debt/GDP ratio, and that they are committing future governments (by including poison pills).
- Suggested that accounting standards will eventually 'catch up' to ensure fair reporting.
- Directed a question towards CPA Canada staff, asking them to contemplate how the standard setting process is impacted by government decision making processes and influence. Observed that PSAB has 'vested stakeholders at the table with PSAB and that their presence and influence reduces the Board's impartiality'. Said that in ON in particular has a strong stakeholder influence on the standard setters.
- Further comments on the pension issue included reference to teachers who receive statements from the OTPP that do not reflect a surplus, but rather a deficit. Said that the OTPP uses a rate of 3.5% under IFRS, but that under PSAB the government is able to and has chosen to use a rate of 6.5% which creates a surplus. Said that the government's portion of the surplus is only ½ of $11B.
- Referenced accounting by NB which doesn't record the asset but just note discloses it.
- Recapped annual impacts over a 5 year period ($1.5, $2.2,etc.), commenting that that the government will have to try to find $11B over next 5 years to make up for the shortfall caused by pension accounting in order to achieve balanced budget.
- In response to a question by Ian MacDonald (former DM of Finance for ON) as to what has changed in the relationship between the government and the AG, she said that likely motivation for the behavior is to try to achieve a balanced budget.

Prepared by:	Nadine Petsche Director, Accounting Policy and Financial Reporting
Date:	April 25, 2017

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Anna Strathy
Subject:	Fw: FAO"s Upcoming EFO Report
Date:	Tuesday, May 09, 2017 10:41:52 PM
Attachments:	EFO - Fiscal - Govt comments v3.docx EFO - Economic - Govt comments.docx

Original Message
From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Tuesday, May 9, 2017 7:00 PM
To: David West; Karen Hughes (MGS); Brian Lewis (MOL); Veinot, Cindy (TBS)
Cc: Ghufran Tarin (MOF); Birks, Ryan (MOF); Patrick Laughton (MOF); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes; Selena Esmail (MOF); Gadi Mayman; Maria Duran-Schneider (MOF); Ronald Kwan; Erik Girard (MCI)
Subject: RE: FAO's Upcoming EFO Report

David (and other FAO colleagues);

Please find attached our consolidated feedback to the Economic Outlook and Fiscal Outlook draft reports. We have focussed on the factual components of this, and have tried to keep an eye on the cabinet confidentiality issue as well. With that in mind, here are a few high-level points to help guide your review of our comments:

-- As in past reports, it is really important for us that you clearly distinguish what is an FAO projection vs. what is a Budget or government projection. This is applied somewhat inconsistently in the draft report. As such, we've provided some advice on where we think that distinction is important to have clearly articulated.

-- Since the Budget forecast horizon only is provided out to 19-20, we think it is important that you make it more clear that you have provided two additional years beyond what is provided for in the Budget documents.

-- With respect to Cabinet Confidentiality, we think that, overall it has been well-respected -- with two exceptions.

1. In a footnote about the child care spaces, you note that "ministry of finance officials indicated that its not fully funded in the fiscal plan" -- a point that is protected under Cabinet Confidence and cannot be disclosed as such. We've provided the deletion in the comment and some alternative wording.

2. The pension adjustment numbers (ie, the impact of the AG's pension accounting treatment) is not something used for the purposes of building the fiscal plan in the Budget -- and as such, cannot be considered a government projection (even though the government did disclose the potential impact of the pension adjustment in the 2016 FES, it did not do so as part of the 2017 Budget). As such, the underlying multi-year pension numbers provided to you by OPCD should be considered advice to Cabinet and protected. We think that perhaps a further conversation is required on this to make sure we are respecting Cabinet Confidentiality -- but in the interest of giving you feedback today, we thought it was important to provide a potential alternative for consideration. If you consider making it clear that those projections of the pension adjustment are FAO projections -- and not a government projection -- then perhaps we may be able to avoid a breach of Cabinet Confidentiality. We understand from OPCD that they did provide you with the underlying data, and instructions on how to calculate -- but the pension adjustment itself, as presented in the tables, is an FAO estimate of the pension accounting impact and not the government's. As such, you should clearly label it as such and be held accountable for explaining and owning the calculation as well, if asked. If you feel these need additional conversation with us, please let us know....happy to have a follow-up discussion. Hope that makes sense.

Thanks to everyone across MOF/TBS world who worked hard and collaboratively to make sure we could get you something by eod today. We appreciate the opportunity to review and provide feedback. We are happy to have more conversations in the lead-up to the provision of the report to Ministers. If you could also let us know when you expect the release date to be, that would help us plan as well.

Thanks again

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

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-08-17 10:24 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: FAO's Upcoming EFO Report

Good Morning,

Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
The chapters are password protected using the same password as in the past.

The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.

Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.

So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)

Thanks again for your support and assistance.

David West

Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

-----Original Message-----
From: David West
Sent: May 5, 2017 10:22 AM
To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FAO's Upcoming EFO Report

Hello,

Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.

On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.

We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.

As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.

Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.

As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.

Have a great weekend
Tim

From: David West
Sent: Friday, April 28, 2017 5:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: Follow-Up on the 2017 Budget

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

From: David West
Sent: April 28, 2017 9:32 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (:))

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

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

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses
- Additional details/clarification on new health spending, including the new pharmacare plan
- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.
- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)
- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense
- Additional details/clarification on new infrastructure spending
- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
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www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=DwIFAw&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=OdoCVLs6i-6reBTUJh9PAGSfpmSjeJXGKKb9SzvJOII&m=jJtWSE1CRQPdkmh0jIaVwlr5nWEPucF_vHKpaGoi2t0&s=t4sy3IqKfCYuAIXYMgD3yFnKvRx54Zd1idhQlKpexZA&e=
>

Economic and Fiscal Outlook

Fiscal Chapter

May 8, 2017

Confidential Document

This document is confidential. It should not be shown or otherwise transmitted to anyone other than those who have been asked by the Financial Accountability Office of Ontario to provide comments.

Spring 2017

TABLE OF CONTENTS

1. Fiscal Outlook

Overview

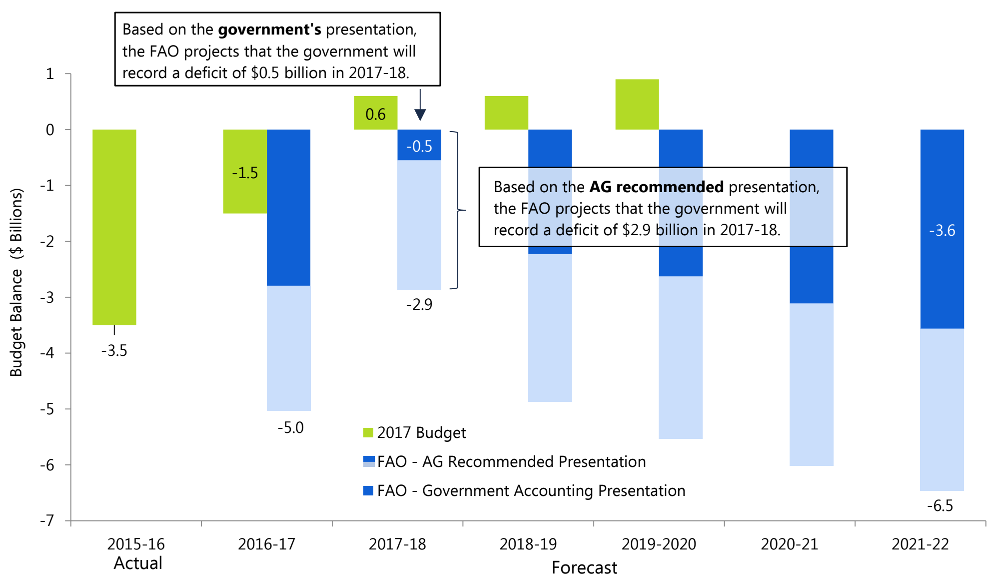
Continued Budget Deficits Projected

Based on the FAO's current economic forecast and updated fiscal information, the FAO is projecting continued Ontario budget deficits over the outlook. In the near term, the deficit improves due to strong tax revenue growth and a temporary boost to non-tax revenue. However, beginning in 2018-19, the deficit is expected to increase as a result of moderating revenue growth combined with higher expenses.

The government and the Auditor General (AG) disagree on the application of public sector accounting standards with respect to jointly-sponsored pension plans. Based on the FAO's projection of the impact of the Auditor General's recommended accounting presentation of pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22. (Please refer to the discussion on page 8 for additional background and context on this issue.)

Based on the government's accounting presentation in the 2017 Budget, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22.[1] By comparison, the government is projecting a budget surplus ~~(before the reserve)~~ of $0.6 billion in 2017-18, followed by continued small surpluses over the next two years (before the reserve).

Ontario's Budget Balance*



* Budget balance ~~excluding~~ before reserve. AG Recommended Presentation includes FAO projection of the ~~pension adjustment.~~ AG's recommended presentation of pension assets.

[1] The Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts if the government continues to report the net pension assets of jointly sponsored pension plans in its financial statements.

Source: 2015-16 Public Accounts, 2017 Budget and FAO

On the government's accounting basis, the FAO projects that a balanced budget is within the government's reach in 2017-18. However, the budget deficit is expected to increase after 2017-18, due to moderate revenue growth, the absence of one-time non-tax revenues, and higher program expenses. Staying in balance after 2017-18 will likely require additional fiscal policy measures.

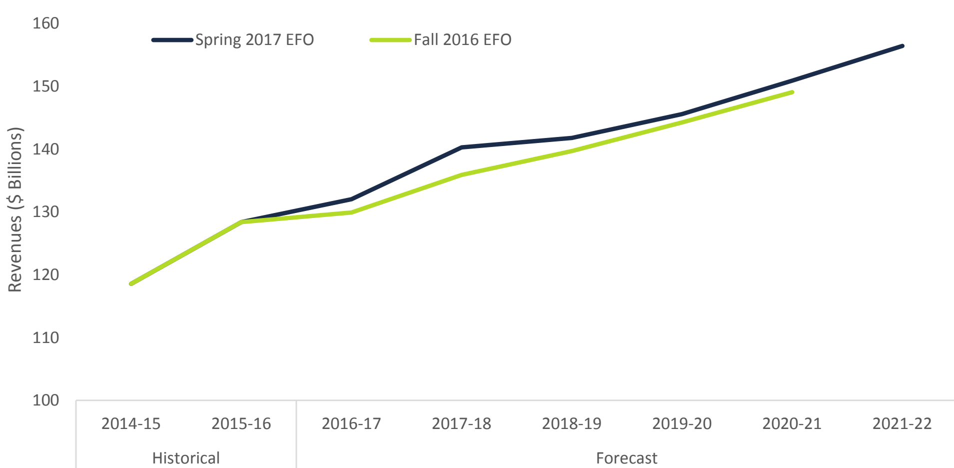
Under the Auditor General's accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget in 2017-18 without significant additional fiscal policy measures (that is, higher revenues or lower expense). Beyond 2017-18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.3 per cent per year from 2016-17 to 2021-22, in-line with the forecast from the FAO's fall outlook.

However, in the near-term, revenue growth is stronger than expected due to robust economic performance in 2016 and 2017, and a boost from one-time revenues in 2017-18. Beyond 2017-18, growth in tax revenues moderates and the benefit of one-time non-tax revenues ends.

Revenues Stronger Than Expected in Near Term



Source: FAO and Public Accounts

FAO Revenue Assumptions and Forecast

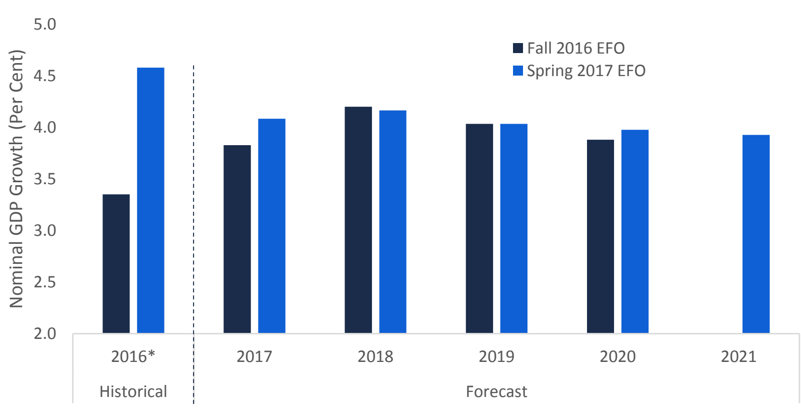
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household consumption.	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers are expected to grow by 1.9 per cent per year from 2016-17 to 2021-22
Government Business Enterprises	Based on government projections	Income from GBEs are projected to rise moderately from $5.3 billion in 2016-17 to $6.5 billion in 2021-22
Other Revenue	Based on government projections, includes asset sales, and cap and trade	These revenues are projected to increase from $8.5 billion in 2016-17 to $11.0 billion in 2017-18, declining to $8.5 billion by 2021-22

Stronger Economic Growth Expected to Boost Tax Revenue

Consistent with the FAO's economic forecast, the FAO is currently projecting tax revenues to rise at an average of 3.9 per cent from 2016-17 to 2021-22, much stronger than the 3.0 per cent forecast in the FAO's fall outlook.

Since the FAO's fall report, nominal GDP – the broadest measure of the tax base – was revised significantly higher in 2016, improving the forecast for 2017.[2] However, beyond 2017, the outlook for nominal GDP growth is relatively unchanged from the fall forecast.

Nominal GDP up Significantly in the Near-Term Since the Fall



* 2016 value for Fall 2016 EFO was the FAO's forecast at the time of the report's release.
Source: Ontario Economic Accounts and FAO

[2] See economic section, and the footnote on page 11.

Improving economic prospects in 2017 are expected to lift the Province's tax revenue by approximately $2.3 billion in 2016-17 and $4.1 billion in 2017-18, compared to the FAO's fall estimates.

- Personal income tax revenue is forecast to grow stronger than expected in the fall due to the improved forecast for labour income.[3]
- Corporations tax revenue is projected to benefit from the stronger outlook for corporate profits.
- Sales tax and land transfer tax revenues are expected to improve in 2016-17 and 2017-18 due to the on-going strength in Ontario's housing market.

Commented [GE(1]: [OEP comment] The Public Accounts of Canada reference only provides the overall growth in federal PIT revenue, and that it reflects PIT planning by high-income individuals. It would be helpful if the report note also included the impact to Ontario PIT revenue specifically assumed by the FAO.

Equalization Entitlement Declines

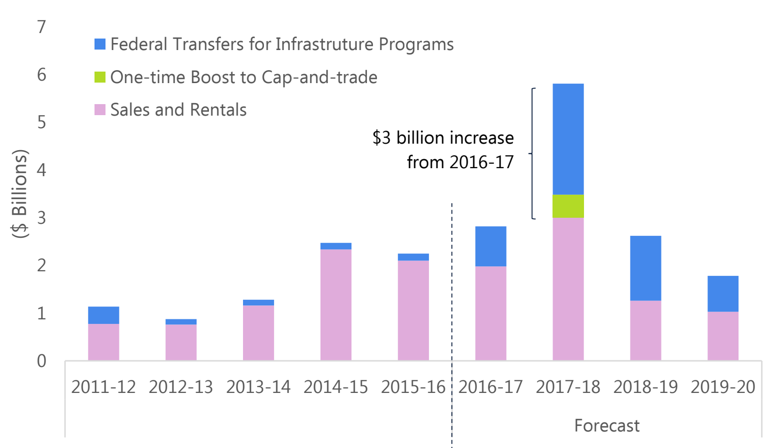
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18, and the FAO projects~~ed~~ this to drop further to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments — a reflection of the continued relative strength of the Ontario economy.

2017-18 Revenues to Benefit from One-time Increases

Based on the 2017 Budget and incorporated into the FAO's projections, Ontario revenues will be boosted by $3.0 billion in one-time increases in 2017-18, including:

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion increase in sales and rentals revenue, suggesting ~~significant~~ additional asset sales; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in ~~2016-17~~2017-18.[4]

2017-18 Non-tax Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO

[3] However, near-term revenue growth will be somewhat dampened as some high-income earners have shifted earnings into the 2015 tax year to avoid the new higher 33 per cent tax rate introduced by the federal government in 2016 (http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). The FAO continues to adopt the federal government's estimate of this income shifting, and has adjusted the personal income tax forecast accordingly.

[4] The government indicated that the cap and trade revenues will be recognized in 2017-18 because the allowances were certified and delivered on April 2, 2017.

Expense Outlook

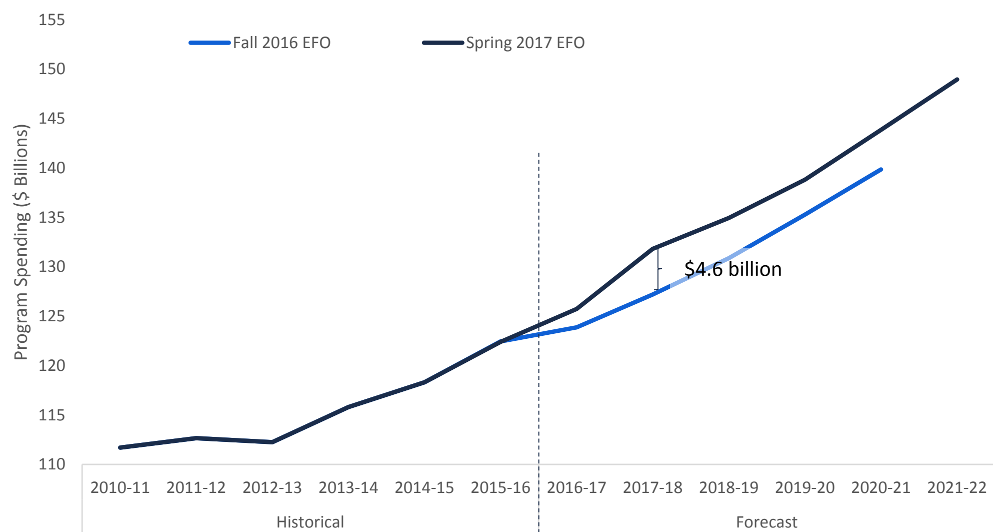
Program Expense to Increase Significantly over the Outlook

The FAO projects program spending growth of 3.3 per cent per year over the 2016-17 to 2021-22 period.

Commented [ST(2]: Might be worth noting that this is two more years worth of forecast horizon than the Budget presents.

Over the 2016-17 to 2019-20 period, the FAO adopts the government's 2017 Budget projections for program spending[5], adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.[6] The expense outlook includes significant new spending across all sectors, including a new children and youth Pharmacare program, higher operating funding for hospitals, 24,000 new child care spaces[7], and the government's new 'Fair Hydro Plan'. As a result, spending is now forecast to be significantly higher by 2017-18 than assumed in the FAO's fall outlook.

Program Expense Higher than Projected in the Fall



Note: Program spending based on FAO's projection of AG recommended accounting treatment of net assets for jointly sponsored pension plans~~presentation~~.
Source: Ontario Public Accounts and FAO

With these new expenses, program spending is expected to grow 3.3 per cent per year on average over the next five years. This growth rate is in-line with underlying growth in cost - and demographic-related pressures of 3.5 per cent on average.

Beyond 2019-20, the FAO projects program spending to increase by 3.6 per cent annually, consistent with underlying factors including population growth, aging, and price inflation.

[5] Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate.

[6] The adjustment reflects the inclusion of a valuation allowance to offset the value of net pension assets in jointly sponsored pension plans. This adjustment increases 'other program' expense by $2.2 billion in 2016-17, rising to $2.9 billion by 2020-21, based on the FAO's projection of the pension adjustment.

[7] The 2017 Budget announced 24,000 new child care spaces for 2017–18, as part of the government's September 2016 Throne Speech commitment to create 100,000 new child care spaces by 2022.~~Ministry of Finance officials indicated that the 24,000 in new child care spaces announced in the 2017 Budget is part of the government's September 2017 Throne Speech commitment to create 100,000 spaces. The remaining funding has yet to be included in the fiscal plan.~~ [Reference to inclusion in the fiscal plan (i.e., highlighted sentence) is Cabinet confidential and should be removed. It should not be disclosed publicly]

Interest on Debt

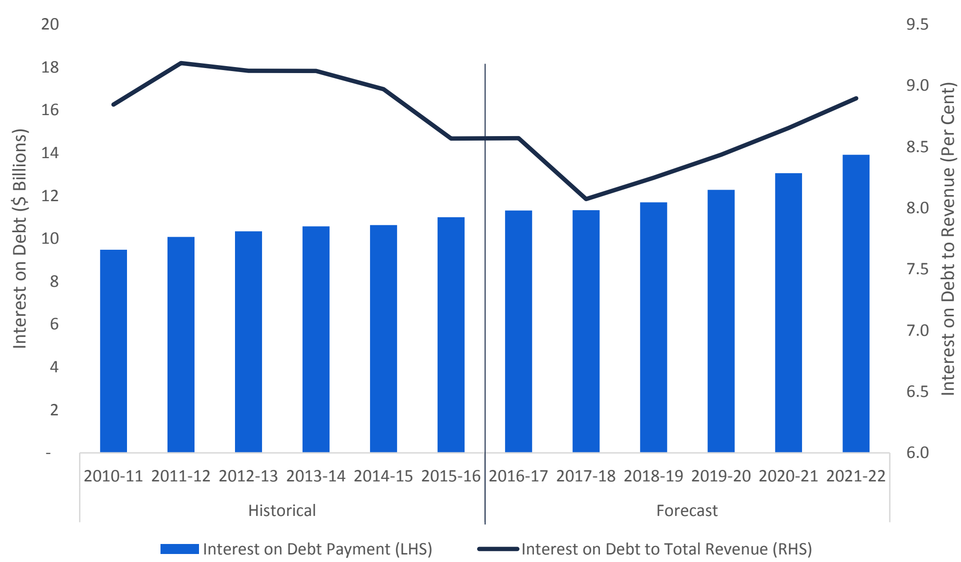
The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. Interest on debt has become the Province's third largest spending category and will significantly outpace the growth in program expense over the outlook.

As a share of revenues, IOD is projected by the FAO to increase from 8.1 per cent in 2017-18 to 8.9 per cent by 2021-22, as the rise in interest payments outpaces growth in revenues. Over the past five years, IOD as a share of revenues declined steadily, benefitting from declining interest rates. With interest rates projected to increase significantly over the next five years, the ratio is expected to rise sharply.

Commented [GE(3]: [OB comment]
Referring to total expense for 17-18, as published in the 2017 Budget, IOD is the fifth largest spending category.

Commented [GE(4]: [OFA comment}
The basis of the FAO's IOD projections are not provided so we cannot provide any commentary.

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO

Ontario Debt Outlook

Ontario Net Debt-to-GDP To Remain Elevated

Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, finance on-going deficits (as projected by the FAO) and refinance maturing debt issues, provincial borrowing is expected to average $37 billion per year over the next five years.

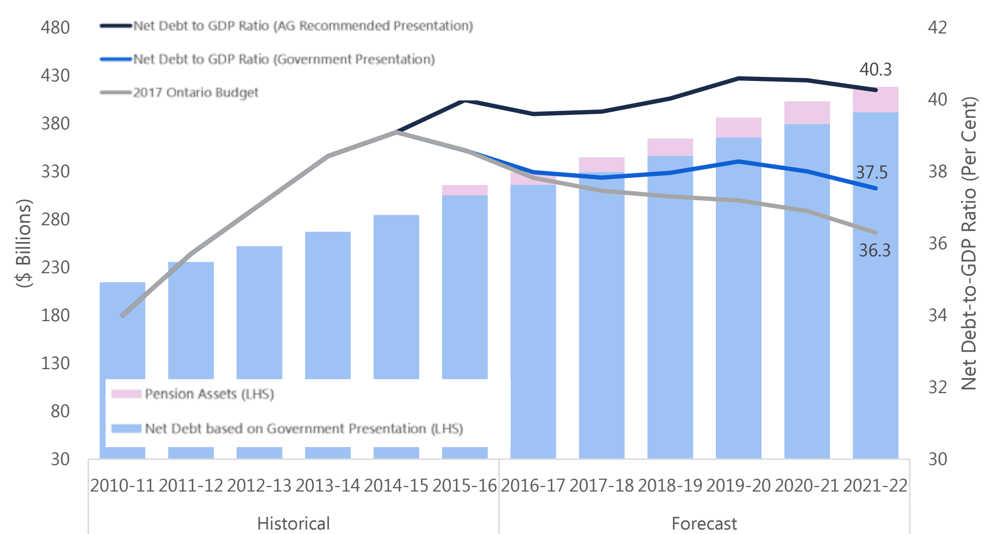
As a result, the FAO projects Ontario's net debt to increase by $87 billion over the next five years to ~~more than~~ $392 billion by 2021-22 based on the AG's recommended accounting presentation. By comparison, using the accounting treatment adopted by the government in the 2017 Budget, the FAO projects Ontario's net debt will rise by $71 billion to $365 billion by 2021-22.

Commented [GE(5]: [OB comment]
Suggest double checking the number of years and the calculations. Based on Table 4a it is $76B over five years; based on Table 4b, $62B over five years.

Based on the FAO's projection of the impact of the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher over the outlook, rising to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting treatment adopted by the government in the 2017 Budget, the FAO projects that net debt-to-GDP ~~is projected to~~will fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22.

In the 2017 Budget, the Province set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to achieving 27 per cent by 2029-30. The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24.

Ontario's Net Debt to GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO

Commented [GE(6]: [OB comment]
As per Balanced Budget chart on page 1, Suggested changes to the chart labels as follows:

In the top legend it should read:
- FAO projection – Net Debt to GDP Ratio (AG Recommended Presentation)
- FAO projection – Net Debt to GDP Ratio (Government Presentation)
- Net Debt to GDP Ratio as Published in the 2017 Ontario Budget.

In the bottom legend "Pension Assets (LHS) should be replaced with:
- FAO projection: Net Debt Based on AG Recommended Presentation.

Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

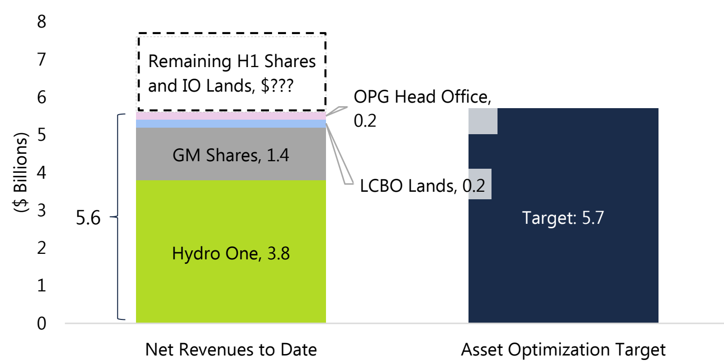
- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in the FAO housing commentary[8], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In addition, the broader economic impacts would impact personal and corporate income tax revenues.
- In the 2017 Budget, the government has significantly reduced the prudence built into its program spending projection compared to the previous budget, leaving less fiscal flexibility for the government to respond to unexpected events.[9] In addition, the FAO projects interest on debt payments as a share of both program spending and revenue ~~are expected~~ to increase significantly, exposing the government to increased fiscal risk should interest rates rise faster than expected.

On the other hand, the government has increased spending growth to a rate in line with underlying spending pressures, which diminishes the expense risk identified in earlier FAO reports.

Additionally, the government has a broad range of policy options that could improve its fiscal position, including the sale of ~~additional~~ non-core public assets beyond announced ~~targets~~initiatives. To date, the government has generated $5.6 billion in net revenues from asset sales, close to its target of $5.7 billion over 10 years.

Given that the government has indicated that it still intends to sell an additional 30 per cent of Hydro One, as well as ~~Infrastructure Ontario~~surplus real estate holdings, it may significantly overachieve its asset sales target.

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets

[8] Financial Accountability Officer of Ontario, The Impact of a Housing Market Correction on Ontario's Fiscal Position, 2017

[9] In the 2017 Budget, contingency funds total $0.6 billion for the plan year, half the size of what was built into the plan year for the 2016 Budget~~coming fiscal year, half the size built into the 2016 Budget fiscal plan~~. Similarly, the government's target for year-end savings has increased to $1.2 billion for the ~~coming~~ plan year, compared to $0.8 billion ~~in~~ for the plan year in the 2016 Budget ~~2016~~.

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

Ontario's 2015-16 Public Accounts noted a disagreement between the Office of the Auditor General and the Province on the appropriate accounting treatment for net pension assets of jointly sponsored pension plans. Specifically, the Province is a joint sponsor of two pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP).

The government's position is that these pension assets have been appropriately and consistently reflected on the Province's financial statements since 2001. The Office of the Auditor General, based on a review of these pension assets, determined that a change in the accounting treatment was required. The Auditor General concluded that under current Canadian public sector accounting standards, the government could not unilaterally recognize a pension asset on its financial statements without evidence - in the form of a written agreement - permitting it to realize the asset through reduced contributions.[10]

In response, the Province adopted regulated accounting for 2015/16 to reflect the results according to the Auditor General's interpretation of public sector accounting standards and subsequently appointed ~~its own~~an expert advisory panel to review and provide a recommended interpretation of public sector accounting standards with respect to the assets of jointly sponsored pension plans. The panel's report[11], released in February 2017, concluded that the Province's share of net assets in jointly sponsored pension plans ~~could~~ should be fully recognized in the Province's financial statements — contrary to the opinion of the Office of the Auditor General.

In the 2017 Budget, the government adopted the expert advisory panel's interpretation of public sector accounting standards and recognized the net pension assets of the jointly sponsored pension plans. The 2017 Budget also indicated that the Province's 2016–17 Public Accounts will report the net pension assets for the two jointly sponsored pension plans.

The Central Issue

The government and the Auditor General have put forward different interpretations of the application of public sector accounting standards for jointly sponsored pension plans.[12]

The different interpretations centre on the question of ~~the~~unilateral control of pension surplus assets in jointly sponsored pension plans. In particular, the issue is focused on whether there needs to be an explicit written agreement between the co-sponsors (the government and the unions representing the employees) on how the sponsors plan to use the pension assets~~, for example by~~ to lower~~ing~~ future contributions ~~or increasing benefits to pensioners~~.

Commented [GE(7]: [OPCD comment]
This latter reference is not relevant to reporting an asset under the AG's interpretation of PSAS.

~~As indicated by~~According to the Auditor General, the issue can be resolved if the government presents an agreement with the Ontario Teacher's Federation (OTF) allowing the government to access the OTPP pension assets through reduced contributions.[13] The extent and duration of the reduced contributions would determine the size of the pension asset that the government could recognize in its financial statements

The government position, ~~based on~~ confirmed by the advice of the expert advisory panel, ~~maintains~~ is that the existing agreements governing the pension plans and past history clearly reflect ~~already recognize~~ the sponsors' rights and intent to benefit from ~~access~~ surplus assets in the plans ~~and also provide the~~through mechanisms reflected in the agreements to potentially realize a benefit through lower future contribution rates.

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[10] The government's 2016 Budget reported a negative expense for the OTPP for 2016-17 which led, in part, to the Auditor General conducting an in-depth review of the related pension assets [suggest including a reference to the AG's Annual report instead].
[11] https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html
[12] In 2015, PSAB created an Employment Benefits Task Force to review the existing accounting standard for post-employment benefits. The work of this task force will include reviewing the appropriate accounting treatment for shared-risk and multi-employer pension plans. However, the work of this task force is not expected to be completed in the near future [suggest deleting this reference. Not relevant].
[13] Of the government's two jointly sponsored pension plans, only the OTPP is currently in a net asset position (This statement is inaccurate: OTPP, OPSEUPP and CAATPPP were all in surplus positions).

In the absence of an agreement, and given the government's decision in the ~~2017 Budget~~Q3 Finances to accept the expert advisory panel's recommended approach to accounting for jointly sponsored pension plan assets, the Auditor General would be expected to provide a qualified opinion[14] on Ontario's 2016-17 Public Accounts.

Roles and Responsibilities of the Province and the Auditor General

The Province (through the Treasury Board Secretariat) is responsible for the preparation of Ontario's Public Accounts in accordance with legislation, and based on the standards set out by the Public Sector Accounting Board (PSAB).[15] The PSAB accounting standards serve the public interest by providing an independent, high-quality accounting framework for public sector entities. Government is responsible to ensure that the financial reports fairly reflect the activities and financial position of the Province.

The Auditor General reviews the Province's annual Public Accounts and provides an audit opinion to the Legislature on whether the Consolidated Financial Statements for the Province of Ontario present fairly, in all material respects, the Province's financial position, in accordance with the PSAB accounting standards.

The FAO's Presentation of Ontario's Fiscal Outlook

The Financial Accountability Officer supports the Legislative Assembly by providing independent economic and financial analysis intended to improve the transparency of the government's fiscal plan. The Officer also looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

The FAO has presented two fiscal projections, including and excluding the impact of the net pension assets of jointly sponsored pension plans to help members of the Legislative Assembly better understand the implications of these different interpretations of accounting standards on the Province's fiscal position.

- The projection based on the Auditor General's recommended accounting treatment assumes a valuation allowance that offsets the net pension assets.
- The projection based on the government's fiscal presentation in the 2017 Budget recognizes the net pension assets based on the FAO's projection over the budget outlook.
  - In the absence of an agreement between the co-sponsors, this presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's future Public Accounts.

Based on the Auditor General's recommended accounting treatment for the net assets of jointly sponsored pension plans and the FAO's projection of the pension adjustment, the FAO is projecting budget deficits of $2.9 billion in 2017-18, rising to $6.5 billion by 2021-22. Alternatively, based on the pension accounting treatment presented by the Province in the 2017 Budget, the FAO's projection for the budget deficit decreases to $0.5 billion in 2017-18 and $3.6 billion in 2021-22.

Commented [GE(8]: [OPCD comment]
FAO could choose to take an alternative position which acknowledges the government as having a different interpretation, supported by an external accounting opinion and an publicly available report issued by the Expert Advisory Panel on Pensions.

[14] An auditor may provide a qualified opinion when financial statements do not conform in a material way to the applicable accounting standards.
[15] https://www.ontario.ca/page/public-accounts-101-guide#section-6]

2. Appendix

Developments since the FAO's Fall 2016 Economic and Fiscal Outlook

The FAO's current projection of the Ontario budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- Stronger than expected economic performance is expected to boost taxation revenues over the forecast, partially offset by lower Equalization revenue.
- Based on new government spending plans, program expense has increased significantly.

Developments since 2016 Fall EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	-5.2	-2.6	-2.8	-3.3	-3.7
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Children and Youth Pharmacare, and Fair Hydro Plan[3]	0.5	1.3	1.3	1.3	1.3
Revised Pension Asset[4]	0.7	0.8	1.1	1.4	1.4
Other Expense Increases	0.7	2.5	1.7	0.9	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	0.2	-0.3	-2.1	-2.3	-2.3
FAO's 2017 Spring Budget Balance Forecast	-5.0	-2.9	-4.9	-5.5	-6.0

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.

2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.

3. In the 2016 Fall EFO, the FAO included $1 billion in expenses from the HST rebate on electricity bills beginning 2017-18, which is now part of the Fair Hydro Plan. As a result, the FAO estimates that the incremental impact of the Fair Hydro Plan is $0.8 billion, compared to the Fall.

4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. ~~The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.~~ This adjustment increases to $2.2 billion in 2016-17, rising to $2.9 billion by 2020-21, based on the FAO's revised projection of the pension adjustment.

Source: FAO

Forecast Tables

Table 1a: FAO Outlook for Ontario Nominal GDP and Key Revenue Drivers

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Nominal GDP								
Spring 2017 EFO	4.9	4.6	4.1	4.2	4.0	4.0	3.9	4.1
2017 Budget	4.9	4.6	4.3	4.1	4.2	3.9	-	4.1
Current FAO Consensus **	4.9	4.6	3.9	4.3	4.1	3.8	4.0	4.0
Labour Income								
Spring 2017 EFO	4.2	4.2	4.0	4.1	4.1	3.9	3.8	4.0
2017 Budget ***	-	4.4	4.1	4.5	4.6	4.2	-	4.3
Corporate Profits								
Spring 2017 EFO	9.1	9.2	6.0	6.3	5.5	4.7	4.5	5.6
2017 Budget	-	9.2	6.8	7.1	5.4	4.0	-	5.8
Household Spending								
Spring 2017 EFO	3.9	4.2	4.2	3.7	3.4	3.5	3.6	3.8
2017 Budget	-	4.2	4.3	4.2	4.2			4.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020 and 2017 to 2019 for Household Spending.

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Budget 2017 Reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Commented [GE(9]: [OEP comment]
Consistent with the provincial economic accounts and the 2017 Budget
Suggest changing 'labour income' references to 'compensation of employees'.

Commented [GE(10]: [OEP comment]
Consistent with the provincial economic accounts and the 2017 Budget
Suggest changing 'corporate profits' references to 'net operating surplus - corporations'.

Commented [GE(11]: [OEP comment]
Consistent with the provincial economic accounts and the 2017 Budget
Suggest changing 'household spending' references to 'household consumption'.

Table 1b: FAO Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO - 2017 Spring Outlook	2.5	2.7	2.4	2.1	2.0	2.0	1.9	2.1
Budget 2017	2.5	2.7	2.3	2.1	2.0	1.7	-	2.0
Current FAO Consensus **		-	2.1	2.3	2.1	1.9	1.9	2.1
Real GDP Components								
Household Spending ***	2.7	2.7	2.3	1.9	1.9	1.8	1.8	2.0
Residential Investment	7.2	7.9	3.5	-1.3	-2.0	1.9	2.4	0.5
Business Investment ****	8.2	-4.0	0.2	5.6	5.7	4.9	3.9	4.1
Government (Consumption and Investment)	1.9	1.6	1.7	1.3	1.2	1.1	1.0	1.3
Exports	2.8	3.0	2.4	2.7	2.5	2.3	2.2	2.5
Imports	3.7	1.4	2.2	2.2	2.3	2.2	2.1	2.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Household Spending is Household and Non-Profit Consumption Expenditure.

**** Business Investment is Non-residential Investment and Machinery & Equipment.

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO - Spring Outlook	0.7	1.1	1.3	1.1	1.0	0.9	0.9
2017 Budget	0.7	1.1	1.3	1.2	1.1	0.9	-
Unemployment Rate (Per Cent)							
FAO - Spring Outlook	6.8	6.5	6.4	6.3	6.3	6.3	6.2
2017 Budget	6.8	6.5	6.4	6.3	6.2	6.2	-
Labour Force (Per Cent Growth)							
FAO - Spring Outlook	0.1	0.9	1.1	1.0	1.0	0.9	0.9
2017 Budget	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Spring Outlook	0.8	1.3	1.3	1.1	1.1	1.1	1.1
2017 Budget	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Spring Outlook	1.2	1.8	2.1	2.1	2.0	2.0	2.0
2017 Budget	1.2	1.8	2.0	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO - Spring Outlook	0.9	1.4	2.2	2.3	2.0	1.9	1.9
2017 Budget	0.9	1.4	2.1	2.0	1.9	1.7	-
U.S. Real GDP (Per Cent Growth)							
FAO - Spring Outlook	2.6	1.6	2.3	2.3	2.2	2.1	2.1
2017 Budget	2.6	1.6	2.3	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO - Spring Outlook	78.2	75.4	75.6	78.4	78.8	79.9	81.3
2017 Budget	78.2	75.4	74.5	75.5	78.5	80.0	-
WTI Crude Oil (US$)							
FAO - Spring Outlook	49	43	54	55	56	61	68
2017 Budget	49	43	54	59	62	64	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Spring Outlook	0.5	0.5	0.6	1.4	1.9	2.3	2.6
2017 Budget	0.5	0.5	0.5	0.8	1.5	1.9	-
10-year Government Bond Rate (Per Cent)							
FAO - Spring Outlook	1.5	1.3	1.8	2.5	2.9	3.6	3.9
2017 Budget	1.5	1.3	1.9	2.4	3.0	3.2	-

a = Actual   f = Forecast

Source: Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO

Commented [GE(12]: [OEP comment]
The FAO forecast is for significantly faster Bank of Canada rate increases than financial markets and private-sector economists expect. The current private-sector average has the three-month T-bill rate at 0.9% in 2018, 1.6% in 2019 and 2.0% in 2020.

Commented [GE(13]: [OEP comment]
Interest rates in 2020 are significantly higher than the 2017 Budget forecast and private-sector consensus. This is likely because some forecasters with low rates are not captured in the FAO consensus view. The current private-sector average is 3.3% in 2020.

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	32.4	34.5	36.7	38.6	40.5	42.5
Sales Tax	23.5	24.7	25.8	26.5	27.3	28.2	29.2
Corporations Tax	11.4	12.7	13.3	14.0	14.6	15.1	15.6
All Other Taxes	25.8	24.0	25.1	25.9	26.9	27.6	28.5
Total Taxation Revenue	91.8	93.9	98.7	103.1	107.3	111.5	115.8
Transfers from Government of Canada	22.9	24.3	25.7	24.6	24.1	24.8	25.6
Income from Government Business Enterprise	4.9	5.3	4.9	5.7	6.0	6.3	6.5
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	8.3	8.5
Total Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4
Expense							
Health Sector	51.0	52.2	53.8	56.3	58.1	60.6	63.3
Education Sector	25.0	25.7	26.5	27.4	28.0	29.0	29.8
Postsecondary and Training Sector	7.7	7.8	8.4	8.3	8.4	8.5	8.6
Children's and Social Services Sector	15.6	16.2	16.9	17.2	17.4	18.0	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	4.9	5.0
Other Programs*	17.1	19.2	21.5	21.0	22.1	22.9	23.7
Total Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9
Budget Balance* (AG Presentation)	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Adjustment for Net Pension Assets (FAO projection)	-1.5	-2.2	-2.3	-2.6	-2.9	-2.9	-2.9
Budget Balance (Government Presentation)	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Budget Balance (2017 Budget)	-3.5	-1.5	0.6	0.6	0.9		

a = Actual f = Forecast

* Based on AG recommended presentation with adjustment for net pension assets.

Note: Budget balance is presented without reserve.

Source: Statistics Canada, Public Accounts of Ontario, Annual Report of Ontario and FAO

Commented [ST(14]: This year is being presented inconsistently with the rest of the years. If you are taking on the AG presentation, then you need to add $1.5B here, and then this ripples through to generate higher program spending, higher total expense, and a deficit of $5.0B at the bottom. Alternative is to change footnote to say "For fiscal years after 15-16, based on….."

Table 4a: FAO Debt Outlook (Auditor General Recommended Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Accumulated Deficit	202.7	207.7	210.6	215.5	221.0	227.0	233.5
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7
Change in Net Debt		10.9	13.5	16.8	19.0	14.0	12.3
Net Debt to GDP (Per Cent)	40.0	39.6	39.7	40.0	40.6	40.5	40.3

a = Actual f = Forecast
Note: * Budget Balance is presented without reserve.
Source: 2017 Ontario Budget and FAO

Commented [ST(15]: This excludes the pension adjustment of $1.5B, which would be inconsistent with the remainder of the fiscal years. Not clear whats going on with the accumulated deficit number…..at $10B higher, not clear why that would be the case.

Table 4b: FAO Debt Outlook (Government Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Accumulated Deficit	192.0	194.8	195.3	197.6	200.2	203.3	206.9
Net Debt	~~294.5~~294.6	303.1	314.3	328.5	344.6	355.7	365.1
Change in Net Debt		8.7	11.2	14.2	16.1	11.1	9.4
Net Debt to GDP (Per Cent)	38.6	38.0	37.8	38.0	38.3	38.0	37.5
Net Debt to GDP from 2017 Budget (Per Cent)	38.6	37.8	37.5	37.3	37.2	36.9	36.3

a = Actual f = Forecast
Note: * Budget Balance is presented without reserve.
Source: 2017 Ontario Budget and FAO

Commented [GE(16]: [OB comment]
Should be 294.6 to align with what is published in the 2017 Budget.

Economic and Fiscal Outlook

2017

Draft Report

Confidential Document

May 2017

Financial Accountability Office of Ontario

Economic Outlook

Overview

Ontario Economy Expected to Remain Strong in 2017

The Ontario economy finished 2016 with a strong 2.7 per cent increase in real GDP, reflecting solid growth in the second half of the year. Real GDP growth last year was significantly above the 2.1 per cent average gain seen from 2011 to 2015. Strong household spending, residential investment and exports contributed to the increase in real GDP in 2016.

Supported by the strong economic momentum in 2016 and continued improvement in economic indicators in the first quarter of 2017, the FAO is projecting real GDP to rise by 2.4 per cent in 2017 and 2.1 per cent in 2018.

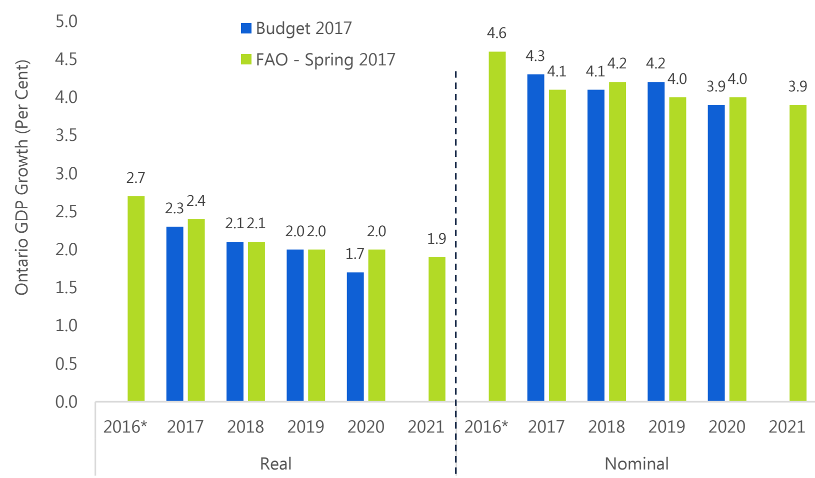
Nominal GDP – the broadest measure of the tax base – increased by a robust 4.6 per cent in 2016. The FAO is projecting nominal GDP to increase by 4.1 per cent in 2017 and 4.2 per cent in 2018, reflecting solid gains in labour income and corporate profits.

Commented [GE(1]: [OEP comment]
Consistent with the provincial economic accounts, suggest changing 'household spending' references to 'household consumption'.

Commented [GE(2]: [OEP comment]
Consistent with the provincial economic accounts, suggest changing 'labour income' references to 'compensation of employees'.

Commented [GE(3]: Consistent with the provincial economic accounts, suggest changing 'corporate profits' references to 'net operating surplus - corporations'.

Solid Economic Performance Expected Over Outlook



* 2016 are actuals
Source: Ontario Economic Accounts, Budget 2017 and FAO

Global Economy Gaining Momentum

In its latest World Economic Outlook,[1] the International Monetary Fund (IMF) is forecasting global economic growth to strengthen from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The IMF revised the outlook slightly higher for 2017, but left it unchanged for 2018, compared to its October 2016 outlook.[2]

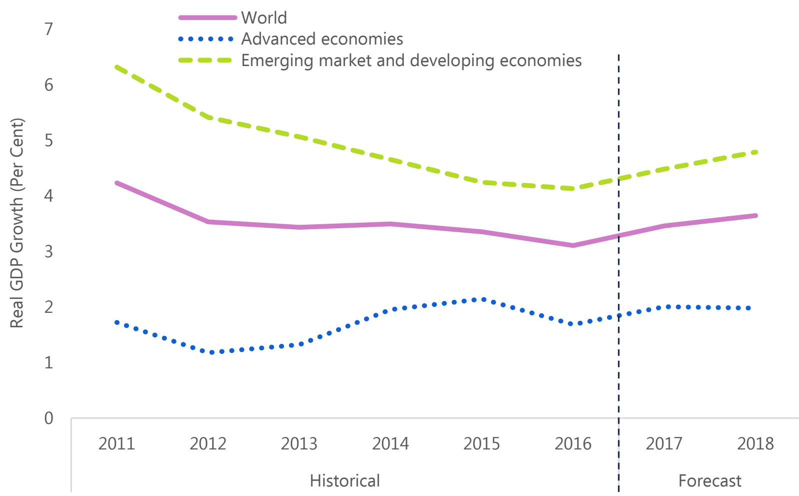
For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

Growth prospects for emerging market and developing economies are much more varied, but overall have weakened slightly from the IMF's October outlook, due to weaker economic conditions in key export markets. On average, the IMF has lowered its growth forecast for emerging markets and developing countries to 4.5 per cent in 2017, with 2018's forecast remaining unchanged at 4.8 per cent.

The IMF expects China – the world's second largest economy – to grow by 6.6 per cent in 2017 and 6.2 per cent in 2018, reflecting continued support from government policy. In the medium term, China's economic growth is expected to gradually moderate as its economy rebalances from investment and manufacturing-led growth to a more service-intensive economy.

[1] "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.
[2] "World Economic Outlook, October 2016: Subdued Demand: Symptoms and Remedies," October 2016, International Monetary Fund.

Global Growth to Improve in 2017



Source: "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund

U.S. Economic Growth to Strengthen in 2017

U.S. real GDP advanced by a relatively moderate 1.6 per cent in 2016, the weakest increase in three years. For 2017 and 2018, the FAO projects U.S. growth to improve to 2.3 per cent, with household spending, business investment and residential construction being key contributors to overall growth.[3]

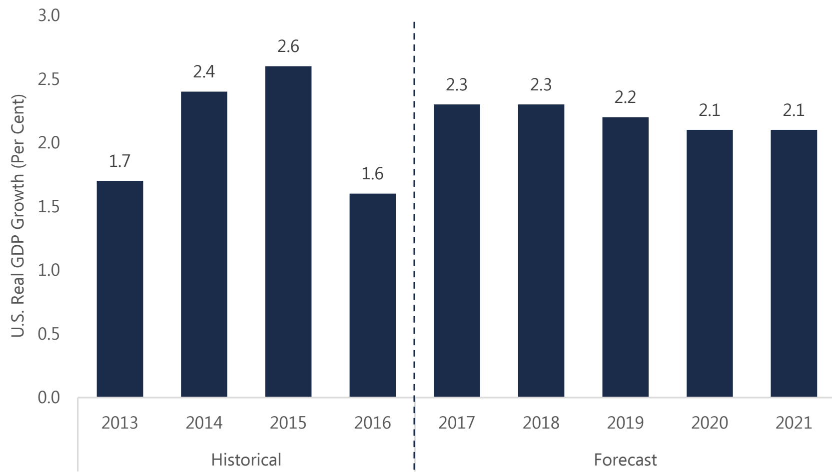
However, the lack of specific details on the new U.S. administration's proposed policies has raised the risks associated with the current U.S. outlook. Many forecasters are cautiously optimistic that some of the proposed fiscal policies, such as expected cuts to corporate tax rates, could boost U.S. economic growth in the short-term.[4] But this optimism is tempered by the potential for large future increases in the U.S. budget deficit, which could weigh on economic growth over the medium-term.

From 2019 to 2021, U.S. real GDP growth is projected to average 2.1 per cent annually, which is in-line with the average rate seen from 2012 to 2016.

U.S. Economic Growth Moderates Beyond 2017

[3] The FAO forecast for the U.S. economy in 2017 is based on the U.S. Congressional Budget Office's (CBO) latest forecast. For 2018 to 2021, the U.S. forecast is based on the average of the CBO outlook and the forecasts of three independent model-based forecasters – the Conference Board of Canada (CBOC), the Centre for Spatial Economics (C4SE) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.

[4] These forecasters include the IMF, CBO, TD Bank, RBC, BMO Capital Markets and National Bank Economics.



Source: Federal Reserve Bank of St. Louis, Congressional Budget Office and FAO Consensus

Canadian Economic Growth Expected to Rebound

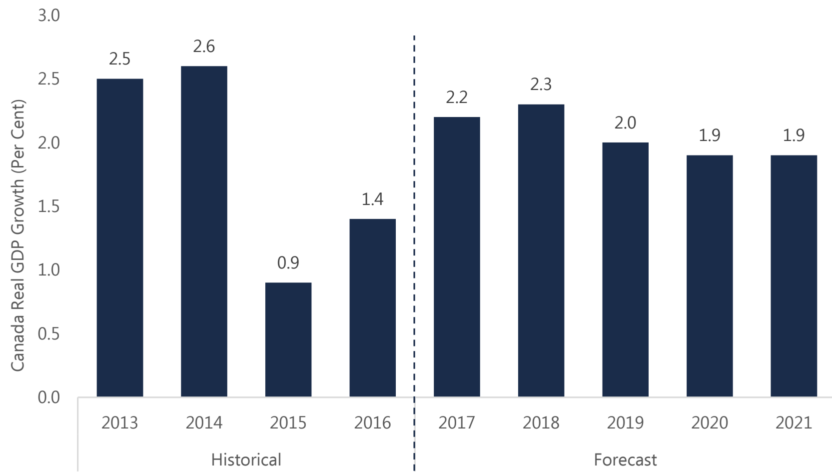
The outlook for the Canadian economy has improved following strong growth over the second half of 2016.

Continued momentum in recent economic indicators point to a solid start for 2017. Canadian real GDP is currently projected to grow by 2.2 per cent in 2017 and 2.3 per cent in 2018, recovering from more moderate growth in 2015 and 2016.[5] Strength in household spending and non-energy exports are expected to contribute to overall growth in 2017 and 2018.

Beyond 2018, Canadian real GDP is projected to increase at an average annual rate of 2.0 per cent, as the economy continues to adjust to slower growth in the energy sector.

Canada GDP Growth Expected to Improve in 2017

[5] The FAO forecast for the Canadian economy is based on the average quarterly forecasts of two independent, model-based forecasters – the Conference Board of Canada (CBOC) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.



Source: Statistics Canada and FAO Consensus

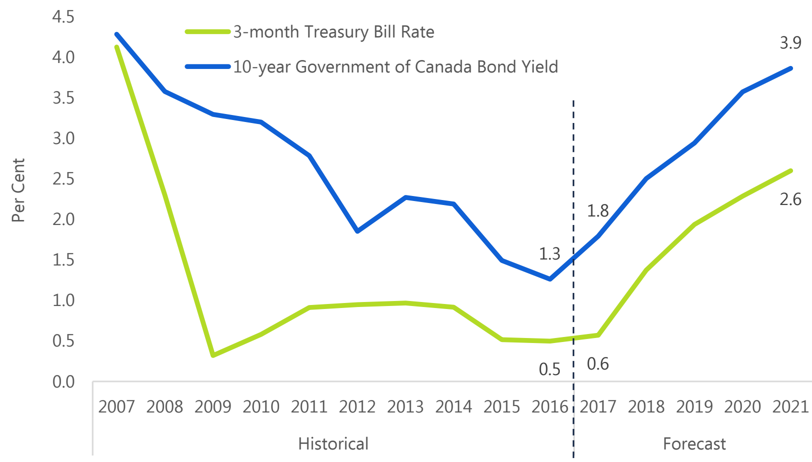
Based on the continuing recovery of the U.S. economy, and in particular the strength of U.S. labour markets, the U.S. Federal Reserve raised its key policy interest rate in March 2017.[6] In contrast, the Bank of Canada has remained more cautious about the underlying strength of the Canadian economy and as a result appears unlikely to raise its key policy interest rate before 2018.[7]

The FAO is projecting Canadian short-term interest rates will remain near current levels through 2017 and then begin rising modestly in 2018. Beyond 2018, interest rates are expected to gradually normalize with the 3-month Treasury Bill rate increasing to 2.6 per cent and the 10-year Government of Canada bond yield rising to 3.9 per cent by 2021.

Commented [GE(4]: [OEP comment]
Interest rates in 2020 are significantly higher than 2017 Budget forecast and private-sector consensus. This is likely because some forecasters with low rates are not captured in the FAO consensus view.

Canadian Interest Rates to Rise over the Forecast

[6] The Federal Reserve raised its key policy rate, or the Federal Funds Rate, to 1.0 per cent on March 15, 2017.
[7] In its most recent monetary policy report, the Bank of Canada (BOC) indicated that it expects the output gap to close in early 2018. At the same time, the BOC noted that "there is still considerable uncertainty about the outlook," suggesting caution with regard to future changes in its policy interest rate. Bank of Canada Monetary Policy Report, April, 2017



Source: Statistics Canada and FAO

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 75 cents U.S. in 2016 to about 81 cents U.S. by 2021, supported by the steady increase in short-term interest rates and a gradual rise in oil prices.

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

Based on the Ontario Ministry of Finance's estimates,[8] Ontario real GDP rose by a strong 2.7 per cent in 2016, following equally strong gains of 2.5 per cent and 2.7 per cent in 2015 and 2014, respectively. Household spending, residential investment and exports were key contributors to overall economic growth last year. Business investment in plant and equipment disappointed expectations, declining by 4.0 per cent.

The performance of a number of economic indicators, including employment, retail sales and home sales remained solid in the first quarter of 2017. However, Ontario's merchandise export performance has been uneven so far in 2017.

[8] Ontario Economic Accounts, Fourth Quarter 2016, released April 13, 2017.

Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited.[9] As a result, despite the projection for steady growth in the U.S. and a competitively valued Canadian dollar, Ontario's net exports[10] are projected to grow at a relatively moderate pace over the outlook.

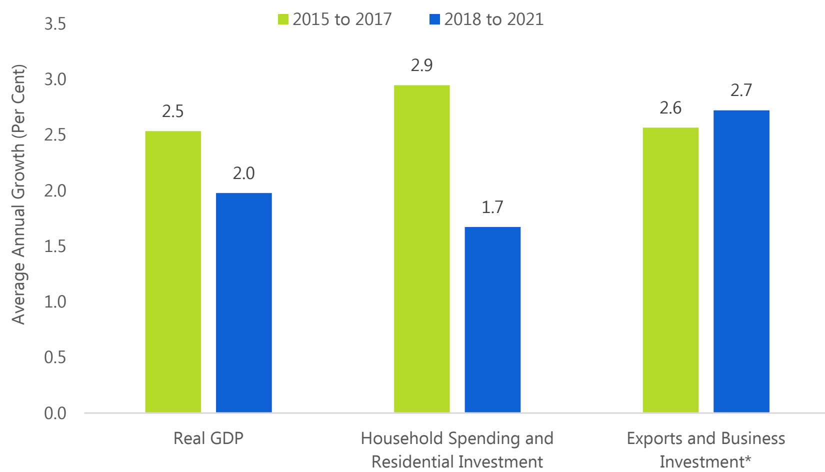
The FAO is forecasting real GDP growth of 2.4 per cent in 2017, supported by strong household spending and residential investment.[11] The pace of Ontario's overall economic growth will moderate to 2.1 per cent in 2018 and to an average of 2.0 per cent over the last three years of the outlook.

Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

The FAO forecast is broadly consistent with the consensus view among economists that exports and business investment will lead Ontario growth over the next several years, while household spending and residential investment will grow at a more moderate pace, as households reduce borrowing to address high debt loads.

Exports and Business Investment Expected to Drive Economic Growth

[9] As noted in a recent Conference Board of Canada report, nearly half of Ontario businesses are operating near or above capacity, hampering the ability of Ontario businesses to increase production to meet foreign demand. Conference Board of Canada Outlook, Winter 2017.
[10] Net exports are exports less imports of goods and services.
[11] The FAO forecast of the Ontario economy is based on the FAO's short-term quarterly model of the Ontario economy. For a description of the model, please refer to the textbox at the end of the Economic Outlook chapter.



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment
Source: Ontario Economic Accounts and FAO

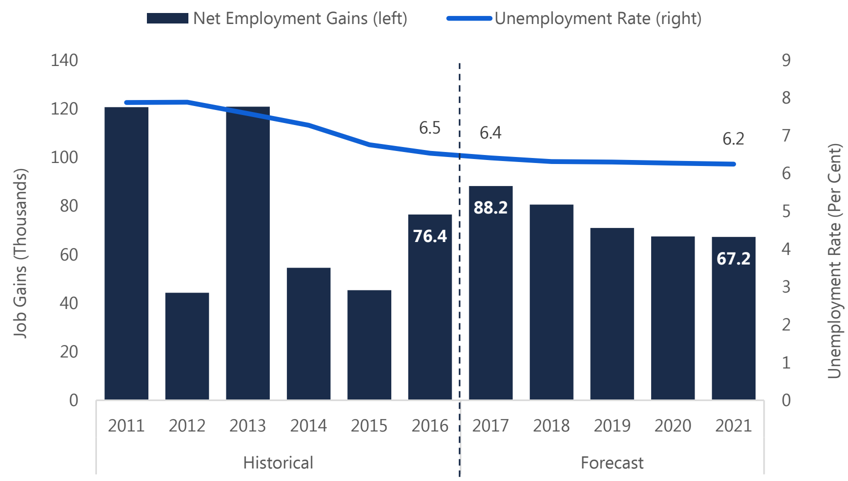
Steady Job Gains Over Outlook

Ontario experienced relatively strong employment growth of 1.1 per cent in 2016 (+76,400 net new jobs), the majority of which were full-time, private sector jobs. There was robust job growth in both goods and service producing industries. The construction industry in particular, posted the highest job growth (+3.4 per cent), followed by healthcare (+3.2 per cent).[12]

The strength in Ontario's labour market continued into 2017 with an increase of 99,600 jobs on a year-over-year basis during the first quarter. For the year, the FAO is projecting a 1.3 per cent gain in employment in 2017. On average, the FAO is forecasting average annual job gains of 1.0 per cent over the next four years, consistent with the outlook for solid economic growth.

Steady Employment Gains as Unemployment Rate Slowly Trends Lower

[12] For a more detailed discussion on Ontario's labour market, see the FAO's Commentary: "Ontario Posts Solid 2016 Job Gain as the Labour Market Continues to Evolve."



Source: Statistics Canada and FAO

Sustained economic growth over the outlook is expected to attract more workers into the labour force, which is forecast to rise at a slightly higher rate than over the last five years. Faster labour force growth from 2017 to 2021, will partially offset relatively strong employment gains, leading to a more moderate decline in the unemployment rate over the outlook.

Strong Gains Expected for Labour Income and Corporate Profits

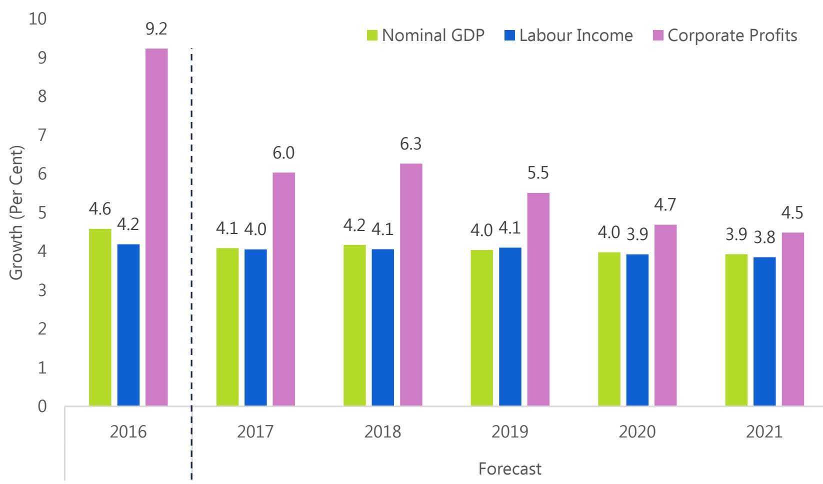
Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following an equally strong gain of 9.1 per cent in 2015.

As a result of the gains in labour income and corporate profits (which together account for about two-thirds of nominal GDP), nominal GDP grew by a strong 4.6 per cent in 2016.[13]

[13] The robust 2016 increase in nominal GDP was much stronger than the 3.4 per cent increase projected in both the FAO's Economic and Fiscal Outlook, Fall 2016 Update and the government's 2016 Economic Outlook and Fiscal Review. The sharp upward shift in 2016 nominal GDP growth reflects large historical revisions to 2015 and 2016 nominal GDP growth in the Ontario Economic Accounts, consistent with new data from Statistics Canada. In particular, the net operating surplus of corporations is now estimated to have increased by 9.2 per cent in 2016 compared to an original projection of 0.3 per cent last fall.

For 2017, the FAO is projecting a 4.1 per cent rise in nominal GDP, supported by strong gains in labour income (+4.0 per cent) and corporate profits (+6.0 per cent). On average, the FAO is projecting nominal GDP growth of 4.0 per cent over the 2018 to 2021 outlook.

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO

Key Risks for Ontario's Economic Outlook

The FAO's current economic forecast represents a reasonable outlook for the Ontario economy and an appropriate foundation for fiscal projections. However, several key risks could materialize leading to weaker than expected economic growth for the province.

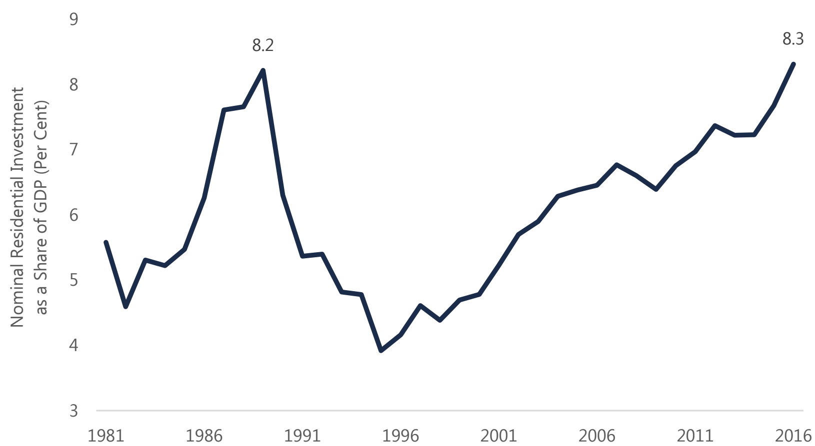
In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate tax rates and 'Buy America' executive orders, could harm Ontario's relative competitiveness, further discouraging business investment and limiting the contribution of exports to overall growth.

Domestically, the housing market continues to pose a significant risk to the overall economy. The sharp rise in Ontario housing prices – particularly in the

Greater Toronto Area – has contributed to record consumer debt loads and stretched levels of affordability.

At the same time, the relative importance of residential housing investment to the overall economy has increased substantially in recent years, posing a significant risk to the Ontario economy, in the event of a sharp housing market correction. In 2016, investment in residential housing accounted for a record high 8.3 per cent of Ontario's nominal GDP, up from 6.4 per cent in 2009.[14]

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO

The last time investment in residential housing accounted for a similar proportion of the economy was 1989, just prior to the 1990-1995 housing market correction.

A sharp correction in housing prices, exacerbated by the elevated levels of household debt, would negatively affect household spending and residential investment, and could lead to broader economy-wide impacts on growth and employment.

[14] Almost one-quarter (22 per cent) of the growth in nominal GDP in 2016 was directly attributable to the increase in residential investment spending.

The Province recently announced a package of measures intended to respond to the underlying factors contributing to the unsustainable rise in housing prices and the rapid growth in housing market activity. However, it is too early to assess whether these measures will adequately address the imbalance between demand and supply pressures in the market.

The FAO's Quarterly Short-term Model of the Ontario Economy

The FAO has developed a short-term forecasting model to produce quarterly five-year projections of the Ontario economy. The model is based on dynamic equations for major sub-categories of real and nominal GDP. The model also includes key labour market components, financial variables and the Canada-U.S. dollar exchange rate. The model is structured around a number of important external or exogenous concepts such as Canada-wide economic growth, U.S. economic growth, U.S. prices, U.S. interest rates and energy prices.

The model is an important tool for the FAO's bi-annual Economic and Fiscal Outlook (EFO), ensuring internal consistency of each projection as well as consistency between EFO forecasts. It also provides the majority of the inputs required by the FAO's Fiscal Outlook Model which provides the FAO's projection of the government's fiscal position.

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Anna Strathy
Subject:	Fw: FAO"s Upcoming EFO Report
Date:	Tuesday, May 09, 2017 10:44:07 PM

You might want to look at the second last paragraph of David's response, Ken.

Original Message
From: David West <dwest@fao-on.org>
Sent: Tuesday, May 9, 2017 8:04 PM
To: Tim Schuurman (MOF); Karen Hughes (MGS); Brian Lewis (MOL); Veinot, Cindy (TBS)
Cc: Ghufran Tarin (MOF); Birks, Ryan (MOF); Patrick Laughton (MOF); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes; Selena Esmail (MOF); Gadi Mayman; Maria Duran-Schneider (MOF); Ronald Kwan; Erik Girard (MCI)
Subject: RE: FAO's Upcoming EFO Report

Tim (and everyone),

Thank you very much for your quick response. I know the deadline was challenging.

I've had a quick review of your comments/suggested edits -- which in general seem thorough, balanced and reasonable.

We'll review more carefully tomorrow, but I believe we will be able to accept the majority of the suggested changes.

One quick comment -- I noticed you suggest we refer to the Pension Advisory Panel as the 'Expert' Advisory Panel... As you might expect, we shared the pension accounting section (only) with AG staff and they insisted we remove 'Expert' from the description of the panel. Just sayin'.

We'll be in touch tomorrow with any questions.

David W.

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: May 9, 2017 7:00 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Edward Crummey <ecrummey@fao-on.org>; Luan Ngo <lngo@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>; Esmail, Selena (MOF) <Selena.Esmail@ontario.ca>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; Duran-Schneider, Maria (TBS) <Maria.Duran-Schneider@ontario.ca>; Kwan, Ronald (OFA) <Ronald.Kwan@ofina.on.ca>; Girard, Erik (MOF) <Erik.Girard@ontario.ca>
Subject: RE: FAO's Upcoming EFO Report

David (and other FAO colleagues);

Please find attached our consolidated feedback to the Economic Outlook and Fiscal Outlook draft reports. We have focussed on the factual components of this, and have tried to keep an eye on the cabinet confidentiality issue as well. With that in mind, here are a few high-level points to help guide your review of our comments:

-- As in past reports, it is really important for us that you clearly distinguish what is an FAO projection vs. what is a

Budget or government projection. This is applied somewhat inconsistently in the draft report. As such, we've provided some advice on where we think that distinction is important to have clearly articulated.

-- Since the Budget forecast horizon only is provided out to 19-20, we think it is important that you make it more clear that you have provided two additional years beyond what is provided for in the Budget documents.

-- With respect to Cabinet Confidentiality, we think that, overall it has been well-respected -- with two exceptions.

1. In a footnote about the child care spaces, you note that "ministry of finance officials indicated that its not fully funded in the fiscal plan" -- a point that is protected under Cabinet Confidence and cannot be disclosed as such. We've provided the deletion in the comment and some alternative wording.

2. The pension adjustment numbers (ie, the impact of the AG's pension accounting treatment) is not something used for the purposes of building the fiscal plan in the Budget -- and as such, cannot be considered a government projection (even though the government did disclose the potential impact of the pension adjustment in the 2016 FES, it did not do so as part of the 2017 Budget). As such, the underlying multi-year pension numbers provided to you by OPCD should be considered advice to Cabinet and protected. We think that perhaps a further conversation is required on this to make sure we are respecting Cabinet Confidentiality -- but in the interest of giving you feedback today, we thought it was important to provide a potential alternative for consideration. If you consider making it clear that those projections of the pension adjustment are FAO projections -- and not a government projection -- then perhaps we may be able to avoid a breach of Cabinet Confidentiality. We understand from OPCD that they did provide you with the underlying data, and instructions on how to calculate -- but the pension adjustment itself, as presented in the tables, is an FAO estimate of the pension accounting impact and not the government's. As such, you should clearly label it as such and be held accountable for explaining and owning the calculation as well, if asked. If you feel these need additional conversation with us, please let us know....happy to have a follow-up discussion. Hope that makes sense.

Thanks to everyone across MOF/TBS world who worked hard and collaboratively to make sure we could get you something by eod today. We appreciate the opportunity to review and provide feedback. We are happy to have more conversations in the lead-up to the provision of the report to Ministers. If you could also let us know when you expect the release date to be, that would help us plan as well.

Thanks again

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

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-08-17 10:24 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: FAO's Upcoming EFO Report

Good Morning,

Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
The chapters are password protected using the same password as in the past.

The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.

Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.

So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)

Thanks again for your support and assistance.

David West
Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

-----Original Message-----
From: David West
Sent: May 5, 2017 10:22 AM
To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FAO's Upcoming EFO Report

Hello,

Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.

On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.

We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.

As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.

Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>

Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.

As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.

Have a great weekend
Tim

From: David West
Sent: Friday, April 28, 2017 5:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: Follow-Up on the 2017 Budget

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

From: David West
Sent: April 28, 2017 9:32 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (:))

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

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

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses

- Additional details/clarification on new health spending, including the new pharmacare plan

- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.

- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)

- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense

- Additional details/clarification on new infrastructure spending

- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=DwIFAw&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=OdoCVLs6i-6reBTUJh9PAGSfpmSjeJXGKKb9SzvJOII&m=QfkAJyCxLKQ1SQi-dACOG5UJEKXqf9JfvOgc16_ABIE&s=czePv2stakYrXXD1Rf7--YGcVuIPuuf-14XT6nDhmAw&e= >

From: Anna Strathy
To: Hresa Gavaris
Cc: Gadi Mayman
Subject: Fwd: tech briefing
Date: Thursday, September 07, 2017 10:35:50 AM
Attachments: Public Accounts Technical Briefing 201617_Final.pptx
ATT00001.htm
Pension Panel Slides _2016-17 PA Tech Briefing_Final.pptx
ATT00002.htm

Hi Hresa,

Would you mind printing the attached for Gadi?

Password is Confederation17.

Anna

Sent from my iPhone

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 7, 2017 at 10:31:51 AM EDT
> **To:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>
> **Cc:** Anna Strathy <Anna.Strathy@ofina.on.ca>
> **Subject: FW: tech briefing**
>
> **FYI**
>
> ---
>
> **From:** MacIntyre, Kyle (TBS)
> **Sent:** September 7, 2017 9:06 AM
> **To:** Kwamena, Boafoa (CAB)
> **Cc:** Bromm, William (CAB); McLean, David (MOF)
> **Subject:** RE: tech briefing
>
> Here's the tech deck and a summary of the former Panel's report (which will be delivered by Uros Karadzic).
>
> Tech deck:
>
> <!--[if !supportLists]-->- <!--[endif]-->Pls use: Confederation17
> <!--[if !supportLists]-->- <!--[endif]-->Helen/Scott open up with context
> <!--[if !supportLists]-->- <!--[endif]-->Cindy to speak to:
> <!--[if !supportLists]-->o <!--[endif]-->Preparation of the financial statements and key changes to these public accounts (including those we agree with the AG on)
> <!--[if !supportLists]-->o <!--[endif]-->IESO related changes (qualified on)
> <!--[if !supportLists]-->o <!--[endif]-->Pension asset related accounting

(qualified on)

<!--[if !supportLists]-->- <!--[endif]-->Turn over to Uros to summarise former panel report

Our MO is reviewing, will share any edits. IESO has looked at their slides. Focus is supposed to be largely on the Pensions, hence the prominence in the deck.

Tech briefing:

<!--[if !supportLists]-->- <!--[endif]-->In the Nipigon room.
<!--[if !supportLists]-->- <!--[endif]-->Starts at 1:00
<!--[if !supportLists]-->- <!--[endif]-->Media Avail w two ministers: starts at 1:45, is the current tracking

Media kits are being prepared.

K.

From: Kwamena, Boafoa (CAB)
Sent: September-07-17 8:42 AM
To: MacIntyre, Kyle (TBS)
Cc: Bromm, William (CAB)
Subject: tech briefing

Hi

Are there materials you can share? Thanks

Boafoa Kwamena
Special Advisor
Office of the Secretary of the Cabinet
Cabinet Office
416-325-4400
Boafoa.kwamena2@ontario.ca

2016-17 Public Accounts

Technical Briefing

September 7, 2017

Purpose of today's briefing

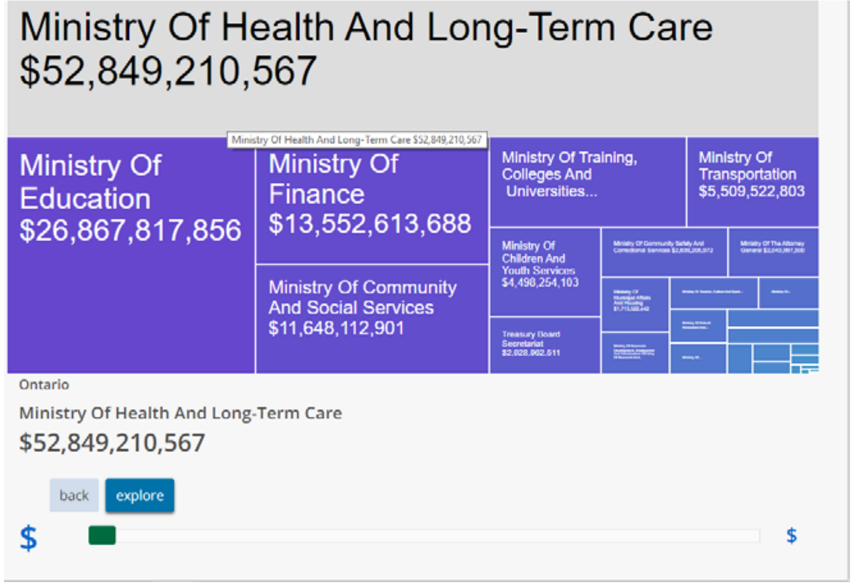
1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
   a) Classification of third-party revenues for hospitals, colleges and school boards
   b) Accounting basis for Ontario Power Generation and Hydro One
   c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
   d) Accounting for net pension assets of jointly sponsored pension plans

Ontario

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.

- This year, Ontario has:
  - Released six new downloadable data sets
  - Created new data visualizations tools
  - Published the web page under the Open Ontario Licence



Ontario

2016-17 Highlights

- Ontario has beaten its deficit target eight years in a row. The 2016-17 Public Accounts of Ontario show that Ontario's deficit is $1 billion - $3.3 billion lower than projected in the 2016 Ontario Budget.
- In the 2016-17 fiscal year (April to March):
  - revenue was $140.7 billion – $2.2 billion more than expected in the 2016 Budget
  - expenses were $141.7 billion – $0.1 billion less than planned in the 2016 Budget
  - Some of the top spending areas included

$56B Health

$26.6B Education

$12.9B Infrastructure

Ontario

2016-17 Highlights

Other highlights include:

- Ontario's real gross domestic product (GDP) was 2.7%, up from 2.2% in the 2016 Budget. Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.

- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

Visit **Ontario.ca/publicaccounts** for more highlights and digital tools that help make Ontario's finances easier to understand, access and use.

Summary 2016-17 Results

2016-17 Actual Results					
$ Billions	**2016-17 Budget[1]**	**2016-17 Actual**	**2015-16 Actual [1 2]**	**Change from Budget**	**% Change**
Revenues	138.5	**140.7**	136.1	2.2	1.6%
Expenses	141.8	**141.7**	139.7	(0.1)	-0.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(4.3)	**(1.0)**	(3.5)	3.3	-76.7%
Net Debt		**(301.6)**	(295.4)		
Accumulated Deficit		**(193.5)**	(192.0)		

[1] 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

[2] 2015-16 Actual has been restated to reverse the impact of regulated accounting for pensions

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.
  - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

Accounting Changes for 2016-17

- The Province adopted several new accounting changes for the 2016-17 Public Accounts to better reflect the financial position and activities of the government during the fiscal year
- These changes included:
  a) Classification of third-party revenues for hospitals, colleges and school boards
  b) Accounting basis for Ontario Power Generation and Hydro One
  c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
  d) Accounting for net pension assets of jointly sponsored pension plans

Ontario

Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only.
- The changes increases total revenues and expenses by approximately $8 billion.
- There is no impact to the Province's deficit, net debt or accumulated deficit.
- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Ontario

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Ontario

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a $17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Ontario

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
  - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
  - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator's accounting for the "market accounts".

Ontario

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
  - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
  - The report of the Pension Asset Expert Advisory Panel (https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
  - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
  - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP.

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report (“Deloitte Report”) on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario’s financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario’s accounting for the Ontario Teachers’ Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers’ Federation (OTF). Based on the Province’s application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province’s application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province’s financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province’s ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province’s accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province’s financial statements as at March 31, 2016 or at any other date.

Ontario

Appendix B: Panel Members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG

- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP

- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY

- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

Summary of Pension Asset Expert Advisory Panel

Technical Briefing

September 7, 2017

Pension Asset Expert Advisory Panel -- Process

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.

- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.

- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.

- Panel considered:
  - guidance in PSAS specifically on Retirement Benefits
  - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Panel’s Position on Recognition of Asset

- Net pension asset meets the definition of an economic resource because:
  - accounting surplus exists, and
  - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.

- Unilateral control not necessary for asset recognition:
  - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
  - sponsors jointly control the total net pension asset and must agree on how it will be used
  - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
  - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Panel’s Position on Measurement of Asset

- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions

- Contribution reductions are not the same as surplus withdrawal:
  - legal requirements for surplus withdrawal and contribution reductions are very different
  - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
  - no third-party approvals needed for contribution reductions

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
  - agreements in place already sufficient
  - standard says benefits need only be reasonably expected

- No onerous funding requirements exist for OTPP or OPSEUPP

Overall Conclusions of Panel

Recognition and measurement of the asset

- Net pension asset, without any valuation allowance, should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

Appendix: Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

From:	Anna Strathy
To:	Ken Kandeepan
Subject:	RE: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed
Date:	Monday, January 15, 2018 11:36:40 AM

Thank you.

From: Ken Kandeepan
Sent: Monday, January 15, 2018 11:36 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

Agreed Anna, makes sense.

Thanks

Ken k

From: Anna Strathy
Sent: Monday, January 15, 2018 11:14 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

Hi Ken,

Office of the Budget is releasing the attached note in response to an FOI request. The request was for final documents related to the FAO's Fall Economic and Fiscal Outlook. The attached summary note was provided to the DMO and MO. We've been asked to review to determine whether anything needs to be redacted (i.e., advice to Cabinet).

I've reviewed and only see two areas for the OFA to consider:

Borrowing and Net Debt (p. 3-4)

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.

    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

This information is already public – I see no need for redaction.

Chart on page 5 compares the 2017 FES fiscal table with the FAO's outlook

While we have not published the delta, all of the inputs to the table are public – I see no need for redaction.

Could you please have a quick review and let me know if you agree with my assessment?

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Friday, January 12, 2018 2:41 PM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: FW: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

Hi Ghufran, Sarah, and Anna,

We received an FOI request for final documents related to the FAO's Fall Economic and Fiscal Outlook (EFO). OB is planning on providing the attached final summary note to the FOI office. We're just in the process of verifying whether any of our components of the summary note need to be redacted.

Can your areas please review the note and flag whether any of the information should be redacted in line with FIPPA exemptions **by noon on Tuesday, January 16**? Exemptions should be limited to information that is not publically available (e.g. internal analysis/advice for government officials).

Please let me know if you have any questions.

Thanks,
Ryan

From: Bouganim, Dalia (MOF)
Sent: January-05-18 12:21 PM
To: Forrest, Jamie (CAB); Ghiassi, Ali (MOF); Fiore, Jessica (MOF); Park, Ria (MOF); Wong, Mimi (MOF); Zisser, Helmut (MOF); Moore, Brynne (MOF); Clarke-Darshanand, Jamille (MOF); Spadoni, Peter (MOF); Kim, Minzi (MOF); Koukoulas, Sophia (MOF)
Cc: Hwang, Wendy (CAB); Jeanes, Bridget (MOF); Joynt, Lorraine (MOF); Murphy, Jessica (MOF); Williams, Nadia (MOF); Sharda, Ritvik (MOF); Tarin, Ghufran (MOF); Birks, Ryan (MOF)
Subject: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

UPDATE: **Request narrowed on January 4, 2018 to final documents, excluding emails, related to the substance of the "Economic and Fiscal Outlook, Fall 2017 Update" released by the province's Financial Accountability Office on December 11, 2017 for the time period of December 4, 2017 to December 25, 2017. This request has also been actioned to the Office of the Budget.**

Sincerely,

Dalia S. Bouganim
416-325-8370

From: Bouganim, Dalia (MOF)
Sent: January-02-18 1:49 PM
To: Forrest, Jamie (CAB); Ghiassi, Ali (MOF); Fiore, Jessica (MOF); Park, Ria (MOF); Wong, Mimi (MOF); Zisser, Helmut (MOF); Moore, Brynne (MOF); Clarke-Darshanand, Jamille (MOF); Spadoni, Peter (MOF); Kim, Minzi (MOF); Koukoulas, Sophia (MOF)
Cc: Hwang, Wendy (CAB); Jeanes, Bridget (MOF); Joynt, Lorraine (MOF); Murphy, Jessica (MOF); Williams, Nadia (MOF); Sharda, Ritvik (MOF); Tarin, Ghufran (MOF)
Subject: NEW CONTENTIOUS FOI REQUEST - Request A-17-189 (Economic and Fiscal Outlook FAO Report)

UPDATE: **New request, clarified on December 29, 2017. Actioned to the Office of Economic Policy, Deputy Minister's Office, Minister's Office and Communications Services Branch.**

REQUEST: Copies of all documents, including e-mails, briefing notes, media lines, text or Instant messages, etc., regarding the Economic and Fiscal Outlook, Fall 2017 Update released by the province's Financial Accountability Office on December 11, 2017. Time Period: December 4, 2017 to December 25, 2017.

SOURCE: Media

DUE DATE: January 28, 2018

Please contact me if you have questions about the request.

Sincerely,

Dalia S. Bouganim
Assistant FOI Coordinator
Freedom of Information and Privacy Office
Ministry of Finance
95 Grosvenor Street
Toronto, Ontario M7A 1Z1
Tel: 416-325-8370

From: Gadi Mayman
To: Anna Strathy
Cc: Ken Kandeepan
Subject: Re: FAO"s Upcoming EFO Report
Date: Friday, May 05, 2017 2:32:01 PM

I look forward to it

> On May 5, 2017, at 2:30 PM, Anna Strathy <Anna.Strathy@ofina.on.ca> wrote:
>
> FYI Gadi, excerpts of the FAO draft report expected on Monday.
>
> -----Original Message-----
> From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
> Sent: Friday, May 05, 2017 2:26 PM
> To: Tim Cook (MOF) <Tim.Cook@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Kostas Plainos (MOF) <Kostas.Plainos@ontario.ca>; Jeremie Stephenson (MOI) <Jeremie.Stephenson@ontario.ca>; Mark Smith (MOF) <Mark.G.Smith@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>
> Cc: Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>; Paul Ternamian (MOF) <Paul.Ternamian@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Shannon Jack (MTO) <Shannon.Jack@ontario.ca>; David Goodwin (MOI) <David.S.Goodwin@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
> Subject: FW: FAO's Upcoming EFO Report
>
> Hi Everyone - this is a heads up that we expect to receive drafts of the economic and fiscal sections of the FAO's report Monday. I will send it around to folks soon after and the game plan for consolidating comments to meet their Tuesday deadline.
>
> Thanks and have a great weekend everyone!
>
> -----Original Message-----
> From: David West [mailto:dwest@fao-on.org]
> Sent: May-05-17 10:22 AM
> To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
> Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
> Subject: FAO's Upcoming EFO Report
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> Hello,
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> Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.
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> On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.
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> We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.

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> As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.
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> Thanks,
>
> David West
> 416.579.1465
>
> -----Original Message-----
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
> Sent: April 28, 2017 5:40 PM
> To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
> Subject: Re: Follow-Up on the 2017 Budget
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> Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
> Subject: RE: Follow-Up on the 2017 Budget
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> As promised, please find attached more detailed questions.
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> Please confirm when we can meet early next week.
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> From: David West
> Sent: April 28, 2017 9:32 AM
> To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
> Subject: Follow-Up on the 2017 Budget
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> Good Morning!
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> Congratulations on delivering yesterday's big, black budget!
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> I wanted to follow-up on the FAO's requests for some additional information.
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> - Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.
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> We'll provide a list later this afternoon that expands somewhat on these question topics.
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> Happy to discuss any of these requests.
>
> Thanks again for your support,
> David
>
> David West

> Chief Economist
> [cid:image009.png@01D17ECB.966ECE00]
>
> 2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
> t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
> www.fao-on.org<http://www.fao-on.org/>
>
>

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Anna Strathy
Subject:	Re: FAO"s Upcoming EFO Report
Date:	Wednesday, May 10, 2017 6:49:48 AM

Thanks Gadi, this is exactly what Bonnie insisted upon in our last couple of conversations.

Ken k

> On May 9, 2017, at 10:44 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:
>
> You might want to look at the second last paragraph of David's response, Ken.
>
> Original Message
> From: David West <dwest@fao-on.org>
> Sent: Tuesday, May 9, 2017 8:04 PM
> To: Tim Schuurman (MOF); Karen Hughes (MGS); Brian Lewis (MOL); Veinot, Cindy (TBS)
> Cc: Ghufran Tarin (MOF); Birks, Ryan (MOF); Patrick Laughton (MOF); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes; Selena Esmail (MOF); Gadi Mayman; Maria Duran-Schneider (MOF); Ronald Kwan; Erik Girard (MCI)
> Subject: RE: FAO's Upcoming EFO Report
>
>
> Tim (and everyone),
>
> Thank you very much for your quick response. I know the deadline was challenging.
>
> I've had a quick review of your comments/suggested edits -- which in general seem thorough, balanced and reasonable.
>
> We'll review more carefully tomorrow, but I believe we will be able to accept the majority of the suggested changes.
>
> One quick comment -- I noticed you suggest we refer to the Pension Advisory Panel as the 'Expert' Advisory Panel... As you might expect, we shared the pension accounting section (only) with AG staff and they insisted we remove 'Expert' from the description of the panel. Just sayin'.
>
> We'll be in touch tomorrow with any questions.
>
> David W.
>
> -----Original Message-----
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
> Sent: May 9, 2017 7:00 PM
> To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Edward Crummey <ecrummey@fao-on.org>; Luan Ngo <lngo@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>; Esmail, Selena (MOF) <Selena.Esmail@ontario.ca>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; Duran-Schneider, Maria (TBS) <Maria.Duran-Schneider@ontario.ca>; Kwan, Ronald (OFA) <Ronald.Kwan@ofina.on.ca>; Girard, Erik (MOF) <Erik.Girard@ontario.ca>
> Subject: RE: FAO's Upcoming EFO Report

>
> David (and other FAO colleagues);
>
> Please find attached our consolidated feedback to the Economic Outlook and Fiscal Outlook draft reports. We have focussed on the factual components of this, and have tried to keep an eye on the cabinet confidentiality issue as well. With that in mind, here are a few high-level points to help guide your review of our comments:
>
> -- As in past reports, it is really important for us that you clearly distinguish what is an FAO projection vs. what is a Budget or government projection. This is applied somewhat inconsistently in the draft report. As such, we've provided some advice on where we think that distinction is important to have clearly articulated.
>
> -- Since the Budget forecast horizon only is provided out to 19-20, we think it is important that you make it more clear that you have provided two additional years beyond what is provided for in the Budget documents.
>
> -- With respect to Cabinet Confidentiality, we think that, overall it has been well-respected -- with two exceptions.
>
> 1. In a footnote about the child care spaces, you note that "ministry of finance officials indicated that its not fully funded in the fiscal plan" -- a point that is protected under Cabinet Confidence and cannot be disclosed as such. We've provided the deletion in the comment and some alternative wording.
>
> 2. The pension adjustment numbers (ie, the impact of the AG's pension accounting treatment) is not something used for the purposes of building the fiscal plan in the Budget -- and as such, cannot be considered a government projection (even though the government did disclose the potential impact of the pension adjustment in the 2016 FES, it did not do so as part of the 2017 Budget). As such, the underlying multi-year pension numbers provided to you by OPCD should be considered advice to Cabinet and protected. We think that perhaps a further conversation is required on this to make sure we are respecting Cabinet Confidentiality -- but in the interest of giving you feedback today, we thought it was important to provide a potential alternative for consideration. If you consider making it clear that those projections of the pension adjustment are FAO projections -- and not a government projection -- then perhaps we may be able to avoid a breach of Cabinet Confidentiality. We understand from OPCD that they did provide you with the underlying data, and instructions on how to calculate -- but the pension adjustment itself, as presented in the tables, is an FAO estimate of the pension accounting impact and not the government's. As such, you should clearly label it as such and be held accountable for explaining and owning the calculation as well, if asked. If you feel these need additional conversation with us, please let us know....happy to have a follow-up discussion. Hope that makes sense.
>
> Thanks to everyone across MOF/TBS world who worked hard and collaboratively to make sure we could get you something by eod today. We appreciate the opportunity to review and provide feedback. We are happy to have more conversations in the lead-up to the provision of the report to Ministers. If you could also let us know when you expect the release date to be, that would help us plan as well.
>
> Thanks again
>
> 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
>
>
> -----Original Message-----
> From: David West [mailto:dwest@fao-on.org]
> Sent: May-08-17 10:24 AM
> To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
> Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
> Subject: RE: FAO's Upcoming EFO Report

>
> Good Morning,
>
> Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
> The chapters are password protected using the same password as in the past.
>
> The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.
>
> Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.
>
> So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)
>
> Thanks again for your support and assistance.
>
>
> David West
> Chief Economist
>
>
> 2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
> t.416.579.1465 | dwest@fao-on.org
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>
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> -----Original Message-----
> From: David West
> Sent: May 5, 2017 10:22 AM
> To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
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> Sent: April 28, 2017 5:40 PM
> To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
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>